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The Small Business Adviser

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Immigration: Double Impact On Business

RETAILING 2000

Owners of small stores need to start now to prepare for the 21st century.

DECEMBER 1994 *Published by U.S. Chamber of Commerce - $2.50*

Ford F-Series has always carried a lot of weight with independent businessmen like Bill Duff. So much so it's been the best-selling truck seventeen years running.* For a lot of good, solid reasons:

POWER STROKE™ Turbo Diesel. 20% more horsepower than Dodge Cummins Diesel.

- Spacious payloads range from 1,040 lbs. up to 5,105 lbs.
- Extensive use of two-sided galvanized steel contributes to toughness.
- Rear anti-lock brakes are standard.
- Available with the biggest, most powerful pickup turbo diesel in existence.

And here's one more important fact: The 1975 F-250 pictured above had 1,049,795 miles on it the day it was photographed.

So to find out how we build our trucks and vans to be that tough, call 1-800-258-FORD for a free brochure from Ford, the commercial truck specialist.

*Based on 1977-'93 CY manufacturer's reported retail deliveries by Division.

FORD WORKFORCE

"I've loaded my pickup with something as heavy as a B-26 bomber engine and it's never failed to take off."

BILL DUFF, J. W. DUFF AIRCRAFT CO., DENVER, COLORADO

BUILT FORD TOUGH

Ford

Nation'sBusiness®

Published by U.S. Chamber of Commerce— Washington, D.C.

PHOTO: ©BARRY STAVER

Hardware retailers *Don and Gloria Connell, confronting major new competition, revamped their selling strategy—and tripled their sales. Like the Connells, small-store retailers must meet the challenges of the coming century. Cover Story, Page 18.*

PHOTO: ©JOEL SALCIDO—BLACK STAR

Cross-border commerce *can benefit all, says El Paso, Texas, store owner Ernesto Anaya. Immigration, Page 28.*

VOL. 82, NO. 12

Editor's Note

PHOTO: T. MICHAEL KEZA

Creating Christmas *magic: Panache Productions' Pamela Anderson. Making It, Page 14.*

DEPARTMENTS

Get Ready For The 21st Century

PHOTO: ASANTA FABIO—BLACK STAR

Camping, hunting, fishing, and hiking raise images of mountains, woodlands, and running streams. So why not incorporate those themes into the exterior and interior of stores serving customers engaged in those outdoor pursuits? That was the thinking of DesignForum, a Dayton, Ohio, store-design firm and one of the many contributors to the retail industry's efforts to be ready for the 21st century. The result was the new look for a regional chain.

Retailers themselves, along with other support companies and experts, are also in the vanguard of this historic move. How the goals of this drive can be achieved is the subject of this month's cover story, "Retailing Looks To A New Century," on Page 18.

The story carries the byline of Associate Editor Meg Whittemore, our own expert on retailing, and covers many aspects of how today's stores can meet the challenges of a fast-changing market on the brink of a new century.

A word of advice on this one: Even if you're not running a retail store, there is a lot of sound information in this article for you. Anyone in the business of selling any product or service will profit from it.

CHANGE!

That theme was the driving force in the 1994 election results that altered the American political landscape. The impact on small business will be enormous because the new congressional management is committed to positive action in the areas that most concern entrepreneurs—taxes, spending, and regulation. Our first commentary appears on Page 83. This is, of course, a subject on which we will be reporting to you regularly from our unique observation post in Washington.

While business owners anticipate a Congress attuned to a market economy, the harsh world of current policies remains. Specifically, it's time for another round of tax forms and filings. Some strategies for making this process less painful appear on Page 26. We hope they work for you.

Robert T. Gray
Editor

On the cover: *One of Tandy Corp.'s Incredible Universe consumer electronics superstores.*

Cover Design: Hans A. Baum
Cover Photo: ©Strode/Eckert

Nation's Business [illegible]

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Nation's Business

Letters

"New" Debit Card Is Old Hat In Europe

The debit card described in your October cover story may be new in the United States, but it is old hat in Europe. I have had a bank card since the late '60s. It was then a guarantee card for any check I wrote up to $200 (even if there were no funds in my account, the bank would pay

up to that amount). In the early '80s, the bank card became a debit card as banks tried to eliminate the labor involved in clearing checks.

As far as automatic tellers are concerned, any of them, from Lisbon to Warsaw, that carry the EC (Eurocheque) logo will allow you to get local currency (at the most favorable exchange rate if you are in another country). You won't find a NYCE (New York Cash Exchange) machine in Tucson, Ariz.

J. Somerhausen
Former Belgian Ambassador to Cuba and Uruguay
Douglaston, N.Y.

What's At Stake In GATT Debate

America stands to lose much of its prized independence under the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which would set up a World Trade Organization (WTO).

The WTO was designed to overturn state and national laws, as evidenced by recent GATT panel rulings. For example, following a challenge by Canada, a GATT panel in February 1992 ruled against a whole group of U.S. federal and state taxes on alcoholic beverages. Included was a Minnesota law that set lower tax rates on microbrewers. (Under the current nonbinding system, the United States was largely able to ignore the GATT panel's findings, but the new WTO provisions would allow sanctions.)

Michael Carpenter, attorney general of Maine, wrote a letter (July 6) to President Clinton protesting the effect of GATT/WTO on state laws. The letter was co-signed by 41 state attorneys general.

Carpenter's concerns are well-founded. GATT would require the U.S. government to enforce its rulings by whatever means necessary.

According to a publication on GATT from the U.S. trade representative's office, "The administration can't say it will never urge states to change laws that violate the GATT." That means, of course, that the states will be forced to conform to GATT decisions.

James B. Hutt Jr., M.D.
Warrenton, Va.

[Editor's Note: In a follow-up July 27 letter to U.S. Trade Representative Mickey Kantor, Mr. Carpenter, writing as the chairman of the National Association of Attorneys General Trade Workgroup, expressed "our satisfaction with the proposed amendments to the GATT implementing legislation and statement of administrative action that our respective staffs have developed over the last 10 days."]

On Health-Care Front, It's Business As Usual

I hope no one is cheering now that health-care reform has been pronounced "dead" for the year. This only means a return to business as usual:

- For the most part, providers can and will continue to charge as much as they want for their products and services.
- Insurers will continue to pay only what they "allow" on medical bills, leaving the patient stuck for the balance.
- The insured (and all taxpayers) will continue to pay for the uninsured.
- Anyone with a pre-existing condition will find it impossible or unaffordable to obtain any kind of health insurance.

Don't small-business owners realize we are all bearing the burden of an overpriced, inefficient system?

What is wrong with an efficiently delivered single-payer system wherein costs are controlled within reason and expenses are borne by employers and employees?

Robert C. Oliger
Oliger Seed Co.
Akron, Ohio

Powerful Clique Killed Disney Park

Disney's cancellation of its plans to build a historical theme park in Prince William County, Va., should be a wake-up call to all Americans. The company's decision was a result of pressures applied by members of a small, rich, powerful clique. Now, no one is immune to their heavy-handed tactics. Our right to use our property has been seriously compromised. Unless people become involved in saving our freedom and our Constitution, America as we know it will be destroyed.
Mason Gardner
Gainesville, Va.

[Editor's Note: Disney decided not to build Disney's America because of controversy that arose over its location. Area homeowners said the park would cause traffic congestion, while historical preservationists expressed concerns about the theme park's impact on nearby Manassas National Battlefield Park. The Disney theme park was supported by the Prince William County planning commission, Virginia Gov. George Allen, the state legislature, and groups that viewed the project as an economic boon.]

Controversy *over location led Disney to cancel theme park.*

Treating A Headache Without Drugs

I read with interest the September To Your Health article on headaches. While accurate, it stops short of mentioning that in many cases there are options other than drugs (which medical doctors seem to use as virtually the only treatment).

Most of the medical literature indicates that about 80 percent of headaches are of the muscle-tension type. This type of headache can sometimes be treated without drugs by physicians who specialize in physical medicine (physiatrists) or dentists who have specialized training.

While there is never a guarantee of success, if a patient is not making progress or is uncomfortable with heavy drug use, at least he or she has another choice.

For information, call the International College of Cranio-Mandibular Orthopedics at 1-800-446-1763 or the American Academy of Head, Neck and Facial Pain at 1-800-322-8651.
W.E. Trimingham, President
Myo-Tronics, Inc.
Tukwila, Wash.

The Advantages Of Insuring A Credit-Card Balance

Re the September It's Your Money item on insuring credit-card balances in the event of death, disability, or loss of job.

Comparing credit life insurance and term life insurance is like comparing apples and oranges. Here are some of the unique features of credit life and credit disability insurance:

■ No minimum purchase requirement. Credit insurance is generally offered in amounts that correspond with the loan value and for a term that coincides with the length of the loan.

■ No health history requirement. Further, age is not considered in determining premium.

■ No prepayment requirement. Credit insurance is offered to consumers in conjunction with their financing to minimize out-of-pocket expenses.

In 1992, consumers benefited from more than $2 billion paid in claims by the nation's 479 credit life insurers and 436 credit accident and health insurers, according to a December 1993 report on credit life and credit accident and health insurance published by the National Association of Insurance Commissioners.

We hope that any future *Nation's Business* articles on credit insurance will include industry comment and a perspective on consumer benefits.
William F. Burfeind,
Executive Vice President
Consumer Credit Insurance Association
Chicago

No Hard And Fast Rules

One of the alternatives suggested in the It's Your Money item—buying $5,000 worth of life insurance—would make sense if someone could easily find such a policy. The problem is that term life insurance is almost never available in such a small amount, unless, of course, it comes in the form of credit insurance. There are no hard and fast rules about buying insurance.
Carl Zeitz, Executive Director
Alliance for Consumer
Credit Insurance Education
Trenton, N.J.

[Editor's Note: The item included comment from Texas State Insurance Commissioner Robert Hunter, who recommended determining "all your family protection needs and then get enough to cover everything. ... There's more than just your credit-card bill to pay if something happens."]

Results Of Survey Reflect Discrimination

The results of the Where I Stand poll on immigration reflected discrimination against illegal aliens, who work and pay taxes like anyone else. I would like to know where this poll was taken. I'm Hispanic, and I don't feel that this poll is correct.
M. Rios
Houston

[Editor's Note: Readers were asked to give their views on immigration issues in August's Where I Stand poll. The monthly survey, which appears on Page 80 of this issue, solicits opinions on major public-policy questions.]

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Because of space limitations we cannot print all letters received, and those selected for publication may be condensed.*

Entrepreneur's Notebook

By Jerry Boman and Joanne Boman

Sustaining A Business —After A Divorce

Some couples dream of starting a family; we dreamed of starting a business.

Eight years into our marriage, in 1983, we launched Suncrest Building Maintenance, a janitorial service based in Raleigh, N.C. Like a lot of couples going into business, we split the start-up duties: Jerry got the company going, while Joanne worked an outside job to pay the bills.

Five years later, we no longer depended on income from Joanne's position. We instead needed her to work full time at Suncrest. The company, which today has $750,000 in annual sales and seven full-time and about 100 part-time employees, required someone with Joanne's skills and talents to oversee administration, hiring, and general customer concerns. Meanwhile, Jerry and our partner, Ron Heard, handled operations and outside sales.

PHOTO: ADÉANE HALL

Now divorced, *Jerry Boman and Joanne Boman still run the janitorial firm they helped found.*

As the company continued to grow, we looked to the world like the All-American entrepreneurial success story. But things stopped working at home.

In April 1991, we separated, but Suncrest stayed together, saved—at least initially—because we almost never saw each other. Our responsibilities dictated that one of us worked in the field while the other worked in the office. (That arrangement continues today, although it's no longer a prerequisite for office harmony.) As a result, customers didn't suffer the consequences of our personal battle. Indeed, our clients became one of the most important issues in our divorce. It was crucial to us both that we served our clients and maintained our company's reputation no matter what.

It wasn't easy. In our case, when the divorce became final, Joanne got the house, and Jerry got what had been our share of the business. Joanne then left the company for a time, and it took almost a year for our working relationship to return to good terms. Even then, Joanne needed Jerry's acknowledgement of her importance to the company in order to deal with her feelings; Jerry needed to understand that if he won the battle with Joanne, the company and his bank account wouldn't be worth much afterward.

Today, the company employs Joanne as business manager, and she is consulted on important issues as if she were an owner.

As we found out, keeping the company on track during rough personal times takes work and some rational thought. Here are some things to keep in mind:

- Before you bring a spouse into the business, make sure you are doing so because the individual has the talents, qualifications, and abilities that the business needs, just as you would with any other employee.
- When personal problems become an issue with the company, get legal advice quickly. Don't start trashing your company's assets, divvying up clients and employees, or hiding the keys. Obtain sound counsel from a family-law specialist with the expertise, objectivity, and creativity needed to address the needs of both the partners and the company.
- Act professionally. Keep your business and personal feelings apart. If you can't manage that on your own, get help from a good counselor.
- Openly recognize your spouse's—or ex-spouse's—positive contributions to the business. Keeping in mind your reason for going into business together and the fact that the business wouldn't be as successful without the other person is a key to holding it together.
- Look to friends and family for help in resolving tension; don't take it out on the business or your ex-spouse. If necessary, communicate through a third person—in our case, our business partner—until personal conflicts are resolved.
- Put others first. Keep in mind how the collapse of the business would affect clients and employees, not to mention your own financial well-being.
- Finally, compromise and give yourselves time and space. You need solutions, not quick answers or additional problems. Being reasonable and taking the time to assess what you really want and need are the best ways to find those solutions. NB

Jerry Boman and Joanne Boman are founders of Suncrest Building Maintenance, in Raleigh, N.C. Jerry is the company's president; Joanne is its business manager. They prepared this account with free-lance writer Susan Biddle Jaffe.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

What We Learned

Respect for what a spouse—or a former spouse—contributes to a company is fundamental to keeping the enterprise afloat.

Dateline: Washington

Business news in brief from the nation's capital.

SMALL BUSINESS ADMINISTRATION

Agency Gains New Leader, Higher Status, New Budget

Small business will have increased access to the president and top Clinton administration policy-makers following the Senate's recent confirmation of Philip Lader as head of the U.S. Small Business Administration.

Lader, a 48-year-old businessman and educator from South Carolina, becomes the first SBA administrator to sit with the Cabinet and participate in all of its discussions. He also participates in meetings of the National Economic Council, which advises the president on issues that could have a substantial impact on the economy.

With his extensive background in small-business issues and his status as a participant in the Cabinet, Lader's prospects of success are excellent, said Richard L. Lesher, president of the U.S. Chamber of Commerce; 96 percent of the Chamber's members are small-business people.

"We look forward to a close and mutually supportive relationship with the new administrator as we all prepare for the 1995 White House Conference on Small Business," Lesher said.

Before his nomination as SBA administrator, Lader was a deputy White House chief of staff and assistant to the president. He also served in the Clinton administration as a deputy director of the Office of Management and Budget and chaired the National Performance Review, the group charged with "reinventing government."

Before his government service, Lader was president of Sea Pines Co., a real-estate development firm, and executive vice president of British investor Sir James Goldsmith's U.S. holding company. He also was president of Winthrop University in South Carolina.

Philip Lader, *the new SBA administrator, will participate in Cabinet meetings to the benefit of small business.*

Lader replaces Erskine Bowles, who after 18 months as the SBA's administrator moved to the White House. His title there is deputy chief of staff, just as Lader's was.

Just before adjourning in October, the Senate also approved the SBA's fiscal 1995 budget of $15 billion for loan guarantees, disaster assistance, and other small-business assistance programs.

—Albert G. Holzinger

FEDERAL COSTS

Unfunded Mandates: Wait Till Next Year!

Legislation that would curb unfunded federal mandates—seemingly so close to enactment just a few months ago ("Mandates' Foes Smell A Victory," September)—fell victim to the chaos surrounding the adjournment of the 103rd Congress. Democratic leaders' lack of enthusiasm for the legislation probably didn't help, either.

House and Senate committees approved bills, but neither came to a vote on the floor. The measures would have made it hard for Congress to impose major new responsibilities on the states without first getting reliable cost estimates.

The Senate bill also would have extended significant protection to business. In recent years, Congress has imposed a wide variety of unfunded mandates on state and local governments, using them to expand the role of government without incurring new federal expenditures. The cost of those mandates has often been passed along to business, itself already burdened by expensive federal directives.

Leading opponents of unfunded mandates in both houses plan to try again in January: "We will be back next year," says Sen. Dirk Kempthorne, R-Idaho, the principal author of the Senate bill.

Now that the advocates of unfunded mandates know that there is real weight behind the drive to curtail them, Kempthorne's aides expect that resistance to his legislation will increase, too, along with efforts to peck away at its edges. The fight over unfunded mandates thus promises to get even hotter in 1995.

—Michael Barrier

THE LAW

House Votes To Comply With Civil-Rights Laws

The U.S. House of Representatives has finally consented to live under some of the same labor and civil-rights laws it has enacted for the private sector—except for letting its employees file lawsuits in federal court to enforce the laws.

Just before adjourning, the House amended its rules to require representatives to comply with 10 laws from which they had been exempt, including the Occupational Safety and Health Act, the Fair Labor Standards Act, the Family and Medical Leave Act, and the Age Discrimination in Employment Act.

The lower chamber adopted the changes in its rules after the Senate failed to act on a bill approved by the House in August. The bill not only would have required Congress to comply with the 10 statutes but also would have allowed congressional employees to sue lawmakers in federal court for alleged violations. The House-approved measure would have also set up an independent compliance office to enforce the laws in both the House and the Senate.

The changes in the House's rules provide only for an internal administrative review and mediation process for aggrieved House employees, who could appeal any decisions to a compliance board.

Although the new House rule is now in effect, proponents of congressional reform have vowed to work in the next Congress to pass a tougher measure. Reps. Dick Swett, D-N.H., and Christopher Shays, R-Conn., sponsors of the bill passed by the House in August, say they will reintroduce their legislation when the 104th Congress convenes in January.

—David Warner


Bill Borders, President   Las Vegas Auto Parts   Las Vegas, Nevada.
"IT'S MORE THAN
IT'S MY SILENT PA

When it comes to reliable business partners, there's one that you can always count on: the Safari cargo van from GMC Truck. Safari comes with all of the strength and reliability that made GMC Truck famous. But there's so much more.

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Mr. Bill Borders owns a 1994 Safari cargo van and several other GMC Truck products.

 Buckle up, America!

Managing Your Small Business

Letting workers know how they fit in; targeting the over-50 crowd; avoiding cellular-telephone rip-offs.

By Roberta Maynard

PRODUCTIVITY

It Can Pay To Show Employees The Big Picture

Do your workers complain about delays in other departments or grouse about not getting needed equipment? They might be less irritated if they understood how all functions of the business work together and how they themselves fit in with that process.

"If they don't have that understanding, employees are left with the task of assembling a puzzle without ever having seen what the finished picture should resemble," says Jann V. Thompson, manager of business education at Human Resource Management Systems, Inc., a consulting company in Glenview, Ill.

Employees should know the short- and long-term objectives of the firm and of its departments, how the company is set up to achieve those objectives, and how work flows from one area to another, says Thompson. And they should know how their decisions and actions affect the entire process, including costs, productivity, revenues, and profits.

This is a concept applied by Mike Olson, plant manager at Ryerson Midwest Coil Processing, in Chicago. He adopted the approach several years ago when he was starting a plant from scratch for a former employer and found he had to learn about many parts of the business unfamiliar to him. "My eyes were open big-time to accounts payable and things I had never known about before," he says, "and now we're doing the same kind of thing" for employees at this plant. Last year, all 136 plant workers went through a half-day of Thompson's training to show them that, in Olson's words, "there are more facets to a company than each worker's little corner of it."

PHOTO: ARGARK JOHNSON

Chicago coil-plant manager *Mike Olson: There are more facets to a firm than each worker's little corner of it.*

Olson holds monthly financial meetings for workers and finds ways to get them involved in everyday problems. For example, on the shop floor is an expensive power tool that workers continually dropped. One day Olson hung price tags on that tool and dozens of other pieces of equipment, noting the replacement cost of each. By that time, workers already knew how purchases could affect profit sharing and other benefits.

"The response was amazing," he says. "They found a way to hook up that tool so it wouldn't drop, and that was the end of the problem."

When the plant needed a new pickup truck, Olson sent workers from the mobile maintenance unit, who would be using the truck, to evaluate what should be purchased. "This way, they pay more attention to the cost and to maintenance factors," says Olson. "We're going to get a better end result by involving the people who are most affected."

Some companies are more open than others in sharing information, even financial data, with their employees, says Thompson. "It's a matter of trust, but it's also a good way to build trust." Some amount of information sharing is necessary, she says, in order to get workers' full participation and commitment to the company's objectives. ■

ADVERTISING

Tips For Designing Messages That Sell

Could your ads be improved? Here are some pointers from the Yellow Pages Publishers Association, in Troy, Mich., on what it takes to make an effective ad:

■ Make sure your headline grabs readers' attention and draws them into the ad by using a bold statement or asking a question.

■ Avoid too much copy. Liberal use of white space (space without text or illustrations) will keep your ad uncluttered and easy to read.

■ Vary the size of the copy type from bold to medium and from large to small to keep the reader's interest.

■ Keep the reader's eye heading directly to the phone number.

■ Keep copy succinct. Emphasize the benefits of your product or service. Specify areas of specialization. Include vital information such as your location, hours, parking, and credit policies.

■ If you have a distinctive logo, use it. Besides your headline, an illustration is the most effective way to attract attention.

■ Be sure your illustration keeps the reader's eye drawn to your ad, not directed out to your competitors' ads.

■ Add a distinctive border to create a mood.

■ Use color *selectively* to make a strong statement or to emphasize selling points. Color captures the reader's attention regardless of the ad's placement on the page.

■ If you use red only, limit it to no more than 50 percent of the advertisement so that the color won't lose its effectiveness. Move the eye from color to black to color throughout the ad.

Generally, your ad has good flow if you can look where your attention is first drawn and from there move through all of the information smoothly to the end. ■

MARKETING

Do's And Don'ts Of Selling To Older Consumers

If you are targeting the growing market of older consumers, consider these tips offered in *Fast Facts on the 50+ Consumer,* a new booklet written by marketing expert Steven J. Phillips (American Source Books/Impact Publishers, San Luis Obispo, Calif.).

According to Phillips, older consumers are people who:

■ Don't like to be thought of as old. These consumers often ignore products or services obviously designed for older people. In addition, businesses should appeal to older people's consumer desires rather than to age-specific needs and limitations.

■ Prefer to be seen in a positive, attractive way. Emphasize positive personal attributes, such as vitality and good health, rather than negative images, such as physical limitations or dependence on others.

■ Want experiences. If possible, show how your product or service will open doors to new experiences such as adventure or knowledge.

■ Are looking for good customer service and want a personal relationship with a business. They want to talk with someone who is concerned with their special needs and who will take time to explain things in detail.

■ Are most responsive to positive views of life. Try not to promote your products based on dire consequences. Always try to sell older customers' dreams, not fears or regrets.

■ Are looking for convenience, ease of use, and ease of access. Be sure to present your product or service in a straightforward manner and without physical barriers that might discourage them. Make certain your office or showroom is appealing and comfortable, and try to keep noise to a minimum.

The best way to learn whether your older customers view your product or service as senior-friendly is simply to ask them.

WORK FORCE

Staying Small By Using An Outside Labor Team

Kate Harper wanted help with her one-person greeting-card business in Berkeley, Calif., but she didn't want the responsibility and expense of hiring workers. The perfect solution for her was to tap the skills of participants at a local work center for developmentally disabled adults, operated by The Arc, formerly called the Association for Retarded Citizens.

PHOTO: GEORGE OLSON

Greeting-card maker *Kate Harper watches as the finishing touches are put on her products by Alexis Douglas at one of The Arc's work centers for disabled adults.*

Every couple of weeks, Harper takes several hundred of her handmade cards to the center, where workers complete the production process, gluing paper onto the cards, putting the envelopes and cards together, and sliding them into cellophane covers.

For these tasks, Harper pays about 11 cents per card, depending on the style. The rate is competitive with the fees of companies that offer similar services, and she receives a tax deduction for the labor costs, as she would for the costs of using any independent contractor. The workers receive about 60 percent of the per-piece charge; the rest is used for the organization's overhead and other expenses.

"This gives them a little spending money and makes them more independent, while getting my work done at a reasonable rate; as workers, they are extremely dependable," says Harper, who hopes she can eventually turn over all her production work to the center.

Says Jenny Leitch, director of development at The Arc's Alameda County, Calif., office: "There are so many benefits to working with a nonprofit group, including enhancing a business's image. We want small and large employers to contact us and give us a chance to bid on jobs. We can do just about anything."

Among the tasks that can be done by workers with developmental disabilities are assembly, disassembly, bagging, labeling, sorting, price marking, collating, and bundling. Businesses that "hire" Arc workers can count on a professional arrangement, with a contract that spells out price, terms of delivery, and contract length. For information about The Arc and its 1,200 offices, call 1-800-433-5255.

Other organizations offer similar worker arrangements. For information on programs of Goodwill Industries of America, Inc., call its contracts department at (301) 530-6500. Such programs are offered also at about half of the 135 offices of the Easter Seal Society; call your local office for details. For information about United Cerebral Palsy Associations' work centers, call 1-800-872-5827. NB

SECURITY

Keeping Cellular Bandits At Bay

The cellular industry loses more than $1 million per day to illegal use of cellular phones, according to Bell Atlantic Mobile, a cellular carrier in Bedminster, N.J. A common problem is unauthorized use or theft of cellular phones. But more insidious has been the recent growth of scams in which bandits electronically intercept customers' cellular phone and serial numbers and use them to make calls and to sell air time to others.

Bell Atlantic Mobile suggests these precautions to reduce the chance of fraudulent use of your phones:

■ Protect your serial and mobile-phone numbers just as you would protect your credit-card numbers.

■ Lock the phone or remove the handset and cellular antenna when leaving your car in the care of others, such as at parking lots or repair shops, or when you park in a questionable area.

■ Report a stolen phone immediately to the police and to your cellular-service provider.

■ Ask your provider to eliminate overseas or long-distance calling capabilities if you don't intend to use them.

■ If you receive many wrong-number or hang-up calls, someone may be using your number fraudulently.


IBM

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Deck The High-Rises . . .

By Dorothy Elizabeth Brooks

"There is nothing like a mother on a mission," says Pamela Anderson, reflecting on why she started Panache Productions Inc., a suburban Atlanta design firm, from her home in 1985. Out of work, the divorced mother of two was determined to find a way to support her family. She had been a nurse but was eager to explore her creative talents.

"I decorated my house ridiculously at Christmas, and for years my friends had been saying that I ought to do it for a living," says Anderson, 50. She decided to use her skills to spruce up Atlanta's rapidly expanding crop of high-rise office buildings for the holidays. "I literally got in my car and drove to the tall buildings because I figured those were the ones that would be upscale enough to want to put decor in their lobbies," she says.

Anderson had virtually nothing to display except her ideas, but she won over a number of property managers. She attributes her success to the prosperity of the mid-'80s and the uniqueness of her concept—providing a custom-designed holiday decorating plan for each client. And she had virtually no competitors. "It wasn't that [property managers] chose me over four other people," says Anderson. "Nobody came to see them about this at all."

While the corporate decorating business is far more competitive today, Panache, in Tucker, Ga., still thrives. Anderson has moved her company into 12,000 square feet of warehouse space, and she expects revenues of $800,000 this year. For most of the year, she operates with one or two employees, but during the holiday season, she employs about 40 full-time workers.

"It would be great to say that I planned the whole thing," Anderson says, modestly, "but I just didn't."

Panache oversees a decorating project from concept through execution, creating a unique plan for a specific building, assembling the props and decorations, putting them up, taking them down, and even storing them if the client desires.

Necessarily, the work is concentrated over six to 12 weeks of the year around the Christmas holidays, but many of the props are so elaborate that it can take longer than a year to make them. One of the firm's more unusual projects includes a five-level tower of steel and light reaching up amid the huge chandeliers of a seven-story atrium. Another is an assortment of fiberglass ornaments, each 150 to 750 pounds, suspended from the

Once a nurse, *Pamela Anderson of Tucker, Ga., is now making it big with corporate holiday decorations, such as this giant wreath.*

ceiling of a three-story lobby. Still another project uses 25,000 lights to make a clock tower look like a 50-foot-high Christmas tree.

A single plan can cost from a few thousand dollars to well over $200,000 to carry out.

Such amenities as elaborate Christmas decor have become important to attracting and keeping good tenants, according to Brian Bowron, director of property management for a Panache client, The Concourse, an Atlanta complex consisting of five office buildings, a hotel, and an athletic club.

"Once some of us have started doing it, then other properties do it as well, and it becomes the norm," says Bowron.

To have cash flow all year, Anderson has begun moving into new areas, such as Fourth of July and Easter decor as well as special events, and she is also designing sets for motion pictures. One of her Christmas trees appeared in the 1992 movie "Consenting Adults" after director Alan J. Pakula spotted the tree in a client's lobby.

Panache can handle 50 to 80 large projects annually, and Anderson is developing a program for smaller office buildings to accommodate modest budgets in the $2,500 to $5,000 range.

The company's creative capability sets Panache apart from competitors, according to Anderson. She remembers the time a truck driver delivering boxes of parts for artificial Christmas trees looked around Anderson's warehouse and asked what her company did. When she told him, he summed it up nicely, Anderson says. "He observed that I was in the business of selling magic." ■

Dorothy Elizabeth Brooks is a free-lance writer in Marietta, Ga.

A Glow From Christmas Past

By Janet L. Willen

To hear Christopher Radko tell how he founded the Christmas-ornament company that bears his name, in Dobbs Ferry, N.Y., is to hear a Christmas story. It begins in 1983, when he was a 22-year-old aspiring talent agent.

"I bought a new tree stand because I was tired of cleaning out the old rusted stand that we had for 50 years," Radko says. Although the new stand was guaranteed to hold a much larger tree, Radko's 14-footer crashed to the floor of his parents' Scarsdale, N.Y., home a week before Christmas, smashing almost all of the nearly 2,000 ornaments on the tree. There were balls depicting Christmas scenes, figurines with faces like Dresden dolls, a garland of train cars, and lights. Most of the decorations were handblown and hand-painted Polish, German, Czech, and Italian glass pieces that had been in the family for as many as four generations.

He looked for replacements, but "nobody had good old-fashioned ornaments," he says. "Everything was very poorly made without any attention to detail—flimsy glass. And most of it was artificial materials, plastic this and plastic that, Styrofoam. There's no magic in decorations like that."

He tried to find ornaments in Poland while visiting a cousin the following spring, but the country was under martial law, and research was nearly impossible. Then, by chance, Radko spotted handblown glass beakers and vials in the window of a pharmacy. The owner led him to a small glassblowing factory. Radko sketched the pieces he wanted and had workers make them for him.

Back in New York, his friends wanted to buy the items, and he says, "A light bulb went off in my head: Maybe I can supplement my very modest income with another modest income, selling Christmas ornaments." He was working in the mail room of a New York City talent agency and earning about $12,000 a year.

Through his cousin, Radko commissioned two dozen more ornaments, which he sold immediately. Another light bulb went off: "If friends would buy, then maybe I could sell to stores." He called government offices to learn about importing and wholesaling. He visited upscale specialty stores, gift stores, museum stores, and department stores in New York, and he contacted retailers in other major cities by mail. "I would just kind of brazenly go in there and say, 'Look at these things,' and they would actually say, 'OK, we'll buy some.'"

A family collection *of antique Christmas tree ornaments inspired Christopher Radko of Dobbs Ferry, N.Y., to start a business.*

Radko continued working at the talent agency full time, using his lunch hour for sales calls and his vacations for shipping. He financed his business through credit cards and loans from family members. He had $20,000 in sales his first year—1986—and over $100,000 the following year; he left the talent agency in 1987.

He now has a 21,000-square-foot warehouse in Dobbs Ferry and works with factories in the Czech Republic, Italy, and Germany as well as in Poland, his mainstay. The original Polish factory has grown from four employees to 150.

Radko started publishing a catalog about six years ago; the 1994 edition lists 545 items, an 18 percent increase from 1993. Radko creates new designs each year as well as new colorations of old designs. The ornaments range from traditional balls, finials, and garlands decorated with snowflakes, Santas, and angels, to whimsical items like pineapple slices and a ball with Teddy Roosevelt's image. The only ornaments he doesn't design are those from Germany, which are made from molds that were carved and duplicated from about 1870 to the 1930s.

Each ornament takes about a week to make. Balls can cost from $63 to more than $100 wholesale for a box of six, or $20 to $30 apiece retail. Radko says his revenues are in the "very comfortable seven figures." He employs 12 people full time in Dobbs Ferry and has 75 sales representatives around the country.

Radko's Christmas story isn't about decorations only. The gross margin from two of his ornaments—$90,000 last year—goes to charities helping to fight AIDS and pediatric cancer. He also pays all expenses for an American teacher spending two years instructing children in a Polish orphanage. "Christmas," he says, "is about sharing, giving, remembering." ■

"What Life Is About"

By Michael Barrier

William Jennings Bryan Osborne Jr., a small-business owner in Little Rock, Ark., has a 19th-century sort of name and a 19th-century sort of girth (he stands 6 foot 2 and weighs 275 pounds). It would be tempting to say that he celebrates Christmas in a Dickensian kind of way, except that Christmas celebrations in Charles Dickens' time were actually rather modest. There is nothing modest about Jennings Osborne's celebrations.

Osborne owns a large home in western Little Rock. Last year, he bought the two houses on either side of his—to have more room for his Christmas lights. He is putting out more than 3 million of them this year. Red, twinkling lights will cover his own house—and everything in his yard—and there will be two lighted Nativity scenes and animated displays, too.

Osborne's lights regularly tie up traffic on Cantrell Road, a main east-west artery. Last year, some of his neighbors sued to keep the lights turned off. A court ruling finally limited the lights to 15 days. His opponents "have no conception of what life is about," Osborne says.

Osborne, 51, is not a spendthrift playboy. He started his own company in 1968, he says, so he could "work all I want to." Now he spends almost all of his time at his business, sleeping there every night. He rises at 5 a.m., is at work by 6:30, and continues straight through until 1 a.m. or so. "To run a business," he says, "you've got to be involved." He takes some weekends off now, at his wife's insistence, but he may not see his showplace Cantrell Road home for a month at a time.

Osborne's company, Arkansas Research Medical Testing Center, tests new drugs for major pharmaceutical companies. The volunteers who test drugs for Osborne must remain on his premises (where he has 200 beds). Some volunteers have to stay in the building for as little as 24 hours, but other groups have been confined there for six or eight weeks.

PHOTO: WESLEY HITT

"It's been a fantasy world *for me," says businessman Jennings Osborne of his success—and he turns his home into a fantasy world each Christmas.*

Osborne interviews all the volunteers himself, so he can cull potential dropouts. "I like the hands-on aspect of it," he says. "I draw every drop of blood that's drawn in this building; and we draw blood about 5,000 times a month." Osborne has 12 employees, including one physician.

He was a microbiologist at Baptist Medical Center in Little Rock, he recalls, when he learned about drug companies' clinical trials, and realized there was a business opportunity for someone who was willing to do the legwork required to provide the patients and doctors needed for the trials.

The field is very demanding, Osborne says, because the drug companies themselves are under severe scrutiny from the Food and Drug Administration. The companies pay very well for studies, he says—although he won't talk figures—"but the first time you let them down, they'll drop you like a hot potato, and they'll never come back."

Osborne bears down as hard as he does, then, because he knows that his highly profitable business could evaporate very quickly if he let up. "And with my bills," he says, "I don't call in sick."

He is the classic American small-business person, writ large: working extremely hard and reveling in the fruits of his labors.

Cars, for instance. Osborne doesn't know how many cars he owns, but it's around three dozen. He also has a large room in his home "to tie fishing flies in," he says. "I have everything available to tie 50 billion flies. Do you know how many I've tied? None. One of these days I'm going to go in there and lock myself in."

He also has a collection of 75 bullwhips. "I'm a fanatic on bullwhips," he says. "I love to pop 'em." And he has "maybe 30" ventriloquist's dummies, all custom-made for him. He is having dummies made in the likeness of himself and his daughter, Breezy.

When he dies, Osborne says, and his possessions are inventoried, "they're going to say, 'This guy was weird.' "

Not that he worries about that. "Every morning when I wake up," he says, "I thank the good Lord. I really enjoy life. We have our ups and downs, but it's really been a fantasy world for me." NB

COVER STORY

Retailing Looks To A New Century

By Meg Whittemore

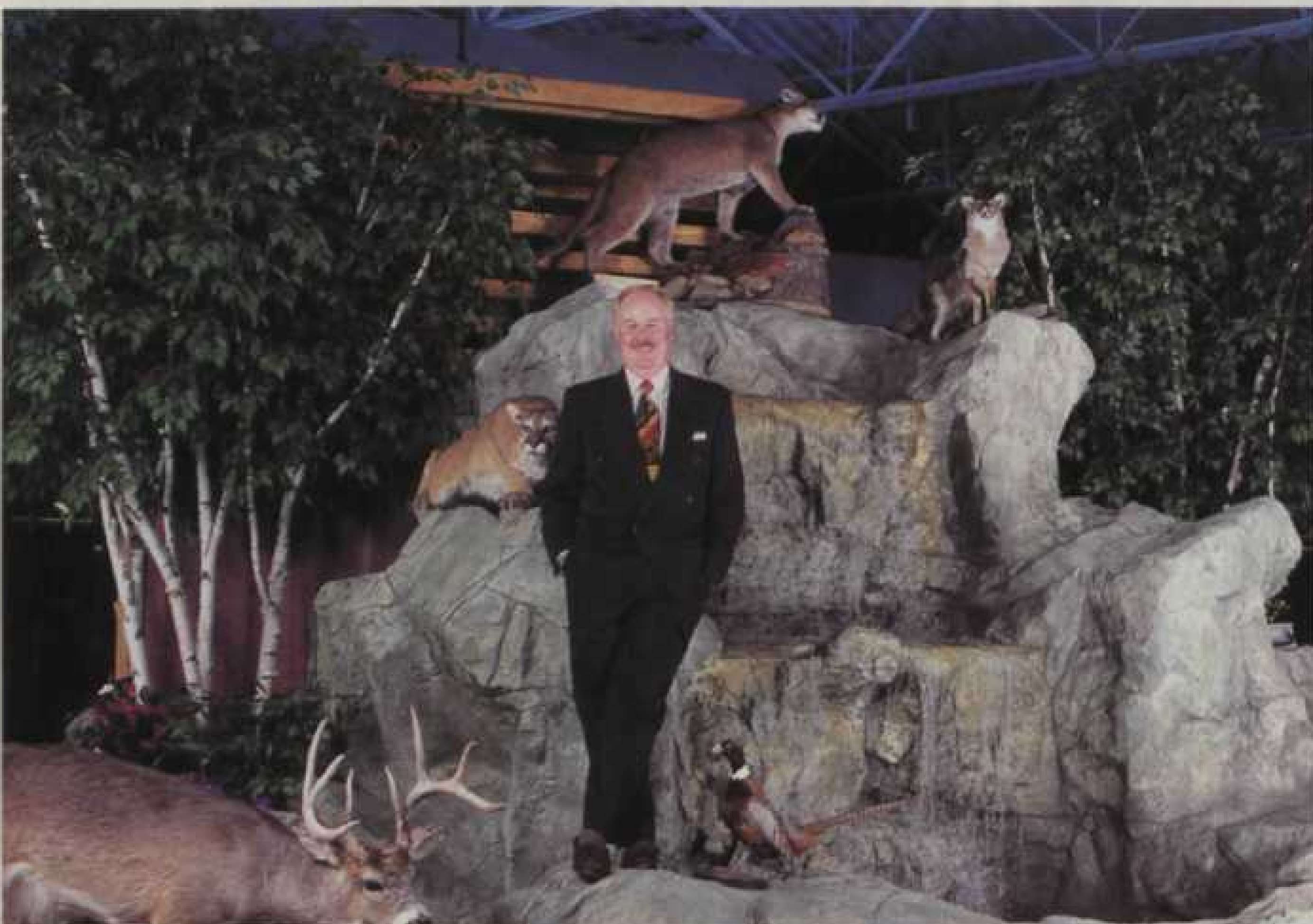

PHOTO: SHANTA FABIO—BLACK STAR

A store must convey *"excitement, entertainment, and emotion," says D. Lee Carpenter, who designed the new look for Gander Mountain outdoor-equipment stores.*

"Too many retailers are in a real vacuum of innovation and creativity," says D. Lee Carpenter, head of DesignForum, a Dayton, Ohio, store-design firm that describes its mission as "recharging the retail experience." Those retailers, he says, find it easier "to do the same thing over and over again" in the mistaken belief that "what works today will work tomorrow."

Retailing expert Robert A. Peterson says retailers tend to focus "only on their narrow areas of expertise" and fail to commit sufficient resources to monitoring changes in the demographic, technological, political, and economic forces affecting them.

Those might seem to be harsh judgments, but they are shared in varying degrees by a broad range of experts who agree that all is not well in significant areas of a retailing industry on the brink of a new century.

Too many retailers, the critics say, have failed to keep pace with today's customers, employees, and technologies. Those problems are compounded by such factors as an excessive number of retail stores throughout the country and merchandise mixes that are indistinguishable from store to store and region to region.

For smaller retailers in particular, the recommended solutions are not only sweeping changes in the ways they do business but also a sense of urgency in putting new approaches into place.

"To succeed in the year 2000, retailers must recognize that the rate of change will increase geometrically," according to *The Future of Retailing* (Quorum Books), edited by Peterson, a professor at the University of Texas School of Business Administration and author of more than 100 books and articles.

Peterson and Richard C. Bartlett, pres-

Small-store retailers must start planning now for the changes that the year 2000 will bring.

PHOTO: ©SANTA FABIO—BLACK STAR

ident and chief executive officer of Mary Kay Cosmetics, Inc., state in a joint contribution to the book: "The successful retailers of the next century will be those able to develop healthier, psychologically mature, and efficient organizations capable of coping with increasing uncertainty and rapid change."

In discussing the look of the industry in the year 2000 and beyond, retail experts also refer to such concepts as vision, employee empowerment and recognition, interactive technology, the disappearance of purchase orders, experiential shopping, fantasy and entertainment, "co-location," electronic shopping, and even stores with neither inventories nor employees.

The context for these ideas is the evolving environment in which retailers must operate, one in which they find new challenges, new problems, and new opportunities.

Demographics, life-style changes, and the availability of low-cost, high-efficiency technology are driving those changes just as they are driving new approaches in virtually every sector of business.

For example, the baby boomers—those born between 1946 and 1964—were once considered advocates of conspicuous consumption at any price; now, as they move into middle age, their shopping priorities have shifted toward economy, service, and convenience. The result has been the explosive growth of factory-outlet stores, discounters, warehouse clubs, "supercenters," so-called category killers (stores so concentrated on given categories of merchandise that they can "kill" the competition in those categories), catalog shopping, and home shopping. In addition to favorable prices, they are searching for one-stop shopping as a time-saving technique for two-worker families. They also want to avoid delays in checkout lines, and they want products to be in stock.

Edward Cornish, president of the World Future Society, an association based in Bethesda, Md., that tracks future trends, says businesses will find strong support for "ways that will make it easier for people to get or do their daily routine in a hassle-free way."

PHOTO: ©BARRY STAVER

Facing stiff new competition, *Don and Gloria Connell recast their hardware-retailing approach, and as a result their sales tripled.*

For smaller retailers, the growth of regional and national chains to meet the desire of today's consumers for hassle-free shopping is bringing intense new competitive pressures. And many entrepreneurs are finding innovative ways to deal with them.

When Don and Gloria Connell heard that Wal-Mart was opening a store half a block away from their small hardware business in Sterling, Colo., they immediately started thinking about survival.

Their store, Mr. D's Ace Hardware, carried a wide selection of housewares, appliances, gifts, sporting goods, and automotive items as well as a small range of traditional hardware products.

Since Wal-Mart carries a similar merchandise mix, the couple decided to face their future competition head-on. The Connells drove to Denver, an hour and a half away, to visit a Wal-Mart store. They spent two days combing the aisles, making extensive notes on the store's merchandise, selection, prices, and shelf space.

"The trip back was very depressing," says Don Connell. "We saw what they

were doing in our best departments and knew that we didn't stand a chance." Three weeks later, the Connells made a radical decision. They discontinued their strongest departments and became a basic hardware store, selling paint, tools, electrical items, plumbing, carpentry supplies, and lawn and garden supplies—and offering customers advice and instruction on how to use those items.

"The things we dropped were the areas Wal-Mart is really strong in, both in pricing and selection," says Connell. "We kept the departments they were weak in and where we could compete easily." The bottom line: "Our sales have tripled since Wal-Mart moved to town," says Connell.

Tracy Mullin, president of the National Retail Federation, a trade group in Washington, D.C., says that such successful responses are becoming more common. "Instead of being forced out of business by the 'category killers' as predicted," Mullin says, "small retailers are thriving by providing the services and products that larger stores are not able to."

Tom Friedman, publisher of *Retail Systems Alert*, a monthly newsletter in Newton, Mass., that covers automation for retailers, says, "There will be a re-emergence of the independent retailer as a major reaction to the large-format stores that offer very low service.

"Small, high-end retailers with high-quality products and high levels of service will locate near the large-format stores. ... They will offer added services such as customizing a customer's purchase, which large-format retailers cannot do."

Retailers' strategies for meeting increasingly competitive pressures also include a recognition that appearance and layout of stores are important in attracting and serving customers.

Carpenter, chairman and chief executive officer of DesignForum, says a successful retail environment must recognize the key questions that customers ask: Why buy here? Why buy now?

To persuade those customers to "buy here," Carpenter explains, the store must establish itself as an authority with focused positioning, well-defined offerings, service, and the information the consumer

Improving Job Skills

Every year, about three-fourths of high-school graduates choose to enter the work force rather than go to college, according to estimates prepared by the U.S. Department of Labor.

"Most of these kids have been prepared for nothing," says Kathy Mannes, project coordinator for the Labor Department's Retail Job Skill Standards Project. "Many of them go into retailing as their first job, stay a couple of months, and leave because they have not been trained."

Retailers have felt the effects of high turnover for years. The human-resources department at Filene's, the Boston-based department-store company, reports a 130 percent annual turnover in salespeople.

"That sends a very clear message," says Marjorie Steinberg, executive director of the Retail Center at the University of Hartford. "People walk in the door because they think retail is a cinch," she says, "and they don't succeed because either they don't have the basic skills going in or they get frustrated with the whole area of retail sales."

The Retail Job Skill Standards Project is a pilot program aimed at identifying the tasks, skills, and knowledge necessary to perform well as a retail salesperson. The research has spanned two years and involves a dozen large and medium-sized retailers, a wide spectrum of salespersons, and the National Retail Federation, a trade group in Washington, D.C.

Salespeople—and their skills in customer service—have direct impact on a retailer's profit line. "That's why we are focused on this job sector," says Mannes. Skills such as applied math, listening abilities, and problem-solving are among the areas covered in the study.

"A big piece of the Skill Standards Project is to send a message to educators on how they can help develop people in the basic skills desired by retail employers," says Mannes.

The University of Hartford's Steinberg is one educator who is acting on the message. The school's Retail Center conducts two eight-week courses designed to train people with little or no retail sales experience. "We give them basic background and training to go into a [retail] sales job and hit the ground running," says Steinberg.

Last year 28 students completed the courses; 22 are in retail sales positions in the Hartford area. Michael Tiggett was in the graduating class last spring and now works as a sales associate for Sears in West Hartford. "I personally believe in building long-term customer loyalty," says Tiggett, who sells appliances on a commission basis. "I got a lot out of the program, and I know they looked at my application more seriously because I had the training coming in."

"I was quite impressed with him," says Alice Pikora, the personnel specialist for Sears who interviewed Tiggett for the job. "The training certificate, his attitude, and willingness to try a commission sales job made him a good candidate for hire."

Pikora, who has been in the retail personnel field for 15 years, says she has seen a steady decline in the quality of sales applicants over the past years. "I see people who don't even know how to write their name or fill out an application," she says, "It is unbelievable."

PHOTO: ANDREW TOH

Retail training *at the University of Hartford led to a sales position at Sears for Michael Tiggett, right, shown helping a customer.*

Reversing—or at least slowing—the decline of acceptable candidates for retail sales jobs is at the root of the Labor Department's efforts with the Job Skill Standards Project. Retailers will be introduced to the project in early 1995. Implementation of the standards will be on a voluntary, company-by-company basis, says Mannes.

"This project is exploratory," Mannes explains, "but it is a way to focus in on the needs of developing a world-class work force."

needs to make the right purchase. The "buy now" question is answered, he says, by demonstrating that the store is focused on the consumer, that it is credible, exciting, customer-friendly, and operationally efficient, and that it conveys a sense of urgency and delivers value.

Carpenter says that retailers will serve customer needs and achieve their own goals "when you add value to the retail experience." His firm helps stores do that, he adds, "by creating efficient, exciting, and entertaining environments."

One such approach is evident in the retail stores of Gander Mountain, a regional chain based in Wilmot, Wis.; it sells hunting, fishing, and camping equipment and apparel through 11 retail outlets and by catalog.

The stores' interiors are designed to create a sense of the outdoors. Says David Reirden, president of Gander Mountain's retail operations: "The objective we started out with was to make the avid hunter, fisherman, or camper comfortable immediately upon entering the store." The first thing the customers see, he notes, is a waterfall flowing over rocks, and "the store has an open-beamed ceiling painted blue, giving customers the feeling of the outdoors." Artificial trees surround the waterfall; bird- and animal-hunting trophies are displayed throughout the store; and a track around the apparel area has been given a wooded look with green edging that suggests grass.

On a larger scale, Carpenter's company designed the Incredible Universe stores, which represent a new approach to retailing for the Tandy Corp., known for decades for its Radio Shack stores. The Incredible Universe consumer electronics superstores provide "entertainment and excitement," Carpenter says.

"Customers," he notes, "can participate in product demonstrations, meet celebrities, experience today's technology in multimedia rooms, grab a bite to eat in the food court, or sing along in the karaoke studio. The store is a living, breathing, nonstop event."

While increasingly popular as a part of the growing entertainment factor in retailing, technology also continues to have a major impact on basic areas of retailing, changing the ways things have traditionally been done.

George Kutsunis, owner of Leading Lady, a women's-apparel chain in Geneseo, Ill., recalls that when he went into business 30 years ago, "I operated with what retailers call the little black book." Inventory would be marked off by hand as it went out of the store, and buying decisions were made accordingly.

He moved part way into the high-tech era with a computer that tracked inventory by classification: women's blouses, sweaters, skirts, and so forth. One person

PHOTO: T. MICHAEL KEZA

Women's apparel retailer *Sue Scott and scores of other businesses joined to help revitalize the commercial heart of downtown Sioux Falls, S.D.*

entered the codes into a computer from the sales tickets. As sales increased, Kutsunis found that his inventory reports were weeks behind. "I realized I would have to hire two more people just to post the sales tickets," he says. "That's when I faced the fact that I *had* to invest in a better computer software system." It cost him about $150,000 to make the upgrade, but "the payback was there because we had built up our volume enough that we could afford to do it," he says.

But technology continues to evolve. Robert Kahn, a veteran retailer who is now a management consultant and editor of *Retail Trends*, notes there are systems in which retailers' checkout terminals are linked to manufacturers' computers, which are programmed to order production of goods at specified inventory levels. The manufacturer ships the goods with retailers' price tags attached. The shipments might go to a central distribution point where coding on the cartons specifies the store destination, and computerized handling systems move the shipments from the receiving area to trucks at loading bays. At individual stores or central receiving points, scanners identify each carton, the information goes into financial-department computers, and payment is authorized electronically.

"Purchase orders are disappearing," Kahn says, adding that although the most elaborate computerized distribution systems are beyond the reach of most small

businesses, there is a good deal of affordable equipment available, and small firms should be taking advantage of it.

Kahn cites a survey by the Arthur Andersen accounting and consulting company showing that 54 percent of the retailers who took part said they do not reorder merchandise until they are out of stock. "It's not a matter of buying power," he says. "It's the system."

Kahn says that today's customers typically have little time to shop and expect a store to have the products they want. Otherwise, he says "they will go to another store. Out-of-stock merchandise remains a constant problem in retailing, and stores that allow it to happen are losing customers. The manual inventory count at the end of every week is no longer acceptable."

Another increasingly important aspect of retail technology comes under the general heading of electronic shopping, particularly those television channels and programs that offer merchandise that viewers can order by calling an 800 telephone number. Once ridiculed as purveyors of garish jewelry, these programs have grown in sophistication and reach, and several major mainstream retailers are turning to that format.

A less extensive yet fast-growing component of electronic shopping is on-line shopping, in which customers at home use computers to order products. The CompuServe on-line computer service, for example, offers its subscribers access to an Electronic Mall, which now has 125

Survival Tactics

A survey by the Illinois Retail Merchants Association showed that one in five small stores is losing money. And one in four reported pretax income of less than $10,000 in 1992. Moreover, retailers suffering losses were not limited to the smaller stores. Of those recording losses in 1992 (most recent data available), half had net sales of more than $1 million.

The study was part of a lengthy research project conducted by the association in collaboration with the Arthur Andersen accounting and consulting firm. Backed by a grant from the state of Illinois, the study reviewed the current performance of 1,500 retailers and suggested ways for them to improve.

The study identified several reasons why so many small retailers are having so much trouble. Among those seen as major stumbling blocks to success were failure to identify customer needs and expectations, poor merchandising, sloppy inventory controls, and a lack of long-term planning.

Results of the study project were published by the association this year as a 322-page book, *Small Store Survival*. The National Retail Federation calls it one of the most useful sources of survival strategies for small-store independent retailers nationwide.

Small Store Survival lists six best practices for small-store retailers:

■ Develop a continuous process to determine what your customers want, and then meet or exceed those expectations at every turn.

■ Identify and pursue a distinct customer market. Then offer it unique merchandise or value-added services.

■ Design every aspect of store operations to enhance the shopping experience. This includes scheduling employees' hours to maximize productivity and reevaluating the store layout to make sure it maximizes customers' buying opportunities.

■ Establish a vision and culture for the store, plan where the company must go, then take the steps needed to get there.

■ Be prepared to compete more fiercely than ever for quality employees. Then make empowering, educating, and retaining them a top priority.

■ Establish budget controls and cost-containment measures to manage frugally what can be measured, and negotiate more aggressively for favorable terms from vendors and suppliers.

One of the study's participants was George Kutsunis, president of G.W.K. Enterprises, Inc. He operates six women's apparel stores in Illinois and Iowa. He uses the study's findings as a guide for ongoing planning, he says, and his firm enjoys what he calls moderate growth and profitability.

Kutsunis credits that growth to a willingness to take steps such as moving to larger locations and investing in a point-of-sale computer system. "The POS enabled us to quickly drop vendors who aren't performing, and to reorder those styles that are doing well," he says.

Using the quick turnaround provided by POS, Kutsunis gives his buyers added ammunition to use on their buying trips and dealings with vendors. "Before [the POS installation], my buyers were being blindsided because they didn't have accurate data," he says.

"The trouble with a lot of small merchants is that they are unwilling to reinvest their profits or their capital into their business to buy into the technology, new fixturing, remodeling their stores, improving their lighting or carpeting," says Kutsunis.

Customers form opinions quickly about a store's level of success by its appearance and layout. He advises retailers to review such things as how merchandise is displayed and how easily customers can reach it.

The "little black book" *for keeping inventory records has been replaced by ever-improving computer software, says women's clothing retailer George Kutsunis.*

What is the future for small-store retailers? "It is not getting any easier," says Kutsunis. "It's tough out there, but it's like anything else. The big guys don't get all the business. No one gets all the business."

With that in mind, Kutsunis plans to grow cautiously. But he *does* intend to grow: Two more stores are in the works.

Small Store Survival can be ordered by writing or calling the Illinois Retail Merchants Association, 36 S. Wabash Ave., Suite 1226, Chicago, Ill. 60603; (312) 726-4600. The price is $60 for members of the association, $90 for nonmembers.

stores, including JCPenney, Hammacher Schlemmer, Lands' End, and the Shopper's Advantage membership club.

The extent to which electronic shopping will compete with in-store retailers is a subject being debated but one that every retailer must monitor. Watts Wacker, managing partner with Yankelovich Partners of Norfolk, Conn., a consumer trends research firm, forecasts that 40 percent of all U.S. households will have made at least one purchase through a television shopping program or via computer by 1997.

Friedman of *Retail Systems Alert* says: "The Internet will be a platform upon which devices will be built by telephone companies and cable companies in conjunction with retailers. It is very expensive to put products on line, so only high-margin products will be offered, such as apparel, prescription drugs, pet supplies, furniture, and home goods." The Internet is a global on-line service providing a vast range of information and communications opportunities to computer users.

DesignForum's Carpenter says, however, that electronic shopping will be much less of a factor in retailing than many people expect. The reason, he says, is that retail customers are creatures of habit for whom store shopping is second-nature. They seek, he says, instant gratification when they want to make a purchase, most lack the technological sophistication required for on-line shopping, and they enjoy the social aspects of visiting malls and stores.

Bonnie Hawley, owner of Hawley's Florist, in downtown Rutland, Vt., says her customers seek social interaction along with the fresh flowers they buy when they come into her store. "We get a large lunchtime crowd, and they like the fact that we carry a diverse selection," says Hawley, "and they like to visit when they come in."

Hawley's Florist was designated a 1994 Blue Chip Enterprise Initiative company by the program's co-sponsors, Connecticut Mutual Life Insurance Co., the U.S. Chamber of Commerce, and *Nation's Business*.

"We struggled to bring the business from a negative percentage sales growth in 1991 and 1992 to 9.5 percent growth in sales last year," says Hawley.

She accomplished that by broadening her selection of flowers, affiliating with FTD (an international delivery network used by florists), and computerizing her customer data base for direct-mail advertising. Hawley says she thinks retailing is headed toward more computerization, but "people will always want the experience of walking into a flower shop, smelling the smells, seeing the colors, and making a purchase."

While the debate over high-tech retailing continues and competition between in-store and in-home selling grows, there is one trend that is looking not to future technology but to the past. With most prime suburban locations for shopping malls already developed, the concept of downtown as a retail center is being revived.

PHOTO: [illegible]

It's not just the colorful diversity *that customers like to find in her shop, says florist Bonnie Hawley; it's also the social interaction—"they like to visit when they come in."*

The International Council of Shopping Centers, a New York-based trade group, reports that mall developers are looking to downtown areas, warehouse districts, and inner cities for building sites.

Mark Schoifet, the council's director of communications, says: "After World War II, the department stores left the downtown area to follow their customers out to the suburbs. So they abandoned the downtown for the suburban sites. Now we see them coming back downtown and building new stores."

That current trend is an outgrowth of the building of big-city retail complexes such as New York's South Street Seaport and Boston's Quincy Market, which includes historic Faneuil Hall. Both complexes are projects of the Rouse Co., headquartered in Columbia, Md. Many of these intown shopping complexes are tied to themes, such as the sailing-ship museum environment of the South Street Seaport, or a more contemporary approach as in The Lab, a shopping mall in a former Los Angeles factory and warehouse. Its target market consists of consumers in their 20s, and it features only small retailers whose products appeal to that market.

On the other end of the spectrum is City Walk, a sanitized, two-block indoor version of a city street. Located in Los Angeles, it houses a wide range of stores aimed at appealing to an upscale suburban clientele.

Warehouse Row, in downtown Chattanooga, Tenn., will have 300,000 square feet of renovated space in what was once an area of railroad warehouses. The mixed-use center—both retail and nonretail business tenants—opened in 1989. Earlier this year, Warehouse Row added 26,000 square feet by opening a half-dozen retail outlets in the adjacent Freight Depot, a historic building. The enlarged center now has 35 small retailers.

In Sioux Falls, S.D., 100 small-store retailers joined with banks and professional firms to form the Main Street

Association, a nonprofit organization dedicated to the revitalization of the downtown retail center. "If a city is your home, then the downtown is the living room," says Sue Scott, owner of Scotts, Ltd., a women's apparel store in downtown Sioux Falls.

Scott decided to locate downtown 10 years ago despite the influx of regional malls around Sioux Falls. "We could see the downtown coming back, even then," she says.

She credits the Main Street Association with providing a focus for the downtown retailers. There are regularly scheduled events such as outdoor festivals, sporting activities, and community gatherings, all aimed at attracting people who do not usually venture downtown. "While people are here, enjoying the events, they visit our stores," says Scott. "The association has helped broaden our customer base."

Friedman says that regardless of the technology or location of retail operations, the basic competitive factor will be the retailer's ability to recruit, train, and retain qualified employees.

One notable aspect of the discussion about how retailers can best prepare for the new century is the extent to which those concerns about employee motivation are merging into the issue of customer service.

Texas professor Peterson writes in *The Future of Retailing* that "the organization's structure must be redesigned to empower front-line employees, focus on the ultimate consumer, and celebrate the sales force. It must reinforce that people really are human, have strong needs for self-esteem, need a sense of accomplishment, and have a sense of achievement that can be enhanced through motivation and achievement."

He adds that "retail leaders in the year 2000 will have learned to respect the lifetime value of both employees and customers. Without such a philosophy, everything else will be for naught."

Training those employees to provide high-quality customer service is the key to achieving those goals. Colorado hardware-store owner Don Connell says that his employees are the cornerstone of his success, and he puts strong emphasis on training. Ace Hardware, a national chain of neighborhood hardware stores, provides him with videotapes on training in the basics of hardware-store retailing, he notes, but "we supplement that with weekly sessions in each department that concentrate on specific repairs." Sales assistants learn basic plumbing, carpentry, and other skills so they can deal with questions and problems customers bring to the store.

In addition to critical strategies such as training employees to meet customer needs, retailers will be pursuing many other approaches in their drive to remain competitive in the face of the strong challenges they face in this turn-of-the-century era.

Although some of those strategies may be beyond the resources of smaller companies, there may be aspects that they can adapt. Consumer-trends expert Wacker identifies and describes the first two of the following three imaginative approaches to Retailing 2000, and publisher Friedman explains the third:

Retail Sales

Year-To-Year Percentage Increases In Major Categories

	Soft Goods	Home Goods	Consumables
1990	3.1%	4.3%	7.3%
1991	3.3	2.4	2.8
1992	7.6	10.3	1.2
1993	5.3	10.2	2.7
1994*	5.9	10.8	3.3
1995*	7.5	8.7	4.2
1996*	6.0	9.0	4.4

* Estimated

Soft goods include apparel; home goods cover home furnishings and electronics; consumables include food and drug items.

SOURCES: DEPARTMENT OF COMMERCE, AND MANAGEMENT HORIZONS, A CONSULTING DIVISION OF PRICE WATERHOUSE

ILLUSTRATION: GEORGIA MCDONALD

Stores Without Inventory. A customer who goes to buy a bicycle in Japan today from Panasonic enters a store that has no bicycles on display. Instead of sitting on bikes and trying them out, the person is put on a machine that measures the buyer's maximum leg thrust, and an order is written and sent to a factory that makes the bike.

Wacker cites another example of how manufacturing is becoming a service business that creates the inventory-less store: A customer will be able to call Barnes & Noble, name a desired book, describe the quality of their vision, tell where the book will be read, and provide a description of the work he or she does. The store will then send the customer relevant sections of the particular book tailored for the place and time the customer intends to read the material and printed in an appropriate type size.

Such trends are designed to cater to the highly individualized preferences of those in the baby-boom generation.

Stores Without Employees. Wacker sees a future in which every block will have a kiosk made up of booths containing the 10 best-selling items on that block. A card key will activate your order for milk, bread, coffee, bath tissue, etc., and charge the purchase to your account.

The kiosk in a neighborhood with a large number of young families, for example, would hold diapers, baby formula, and children's vitamins.

Co-location Retailing. In this approach, Friedman explains, retail shops will seek locations near compatible businesses, with each helping the other to draw customers. For example, a pizza shop might try to locate next to a video-rental outlet.

More and more such unions will occur between retailers whose products and services are related from the consumer's point of view. Customers want to spend as little time shopping as possible, but they also want to buy complementary products conveniently.

The many elements of today's retail challenges have been consolidated into a formula developed by Daniel M. Bergin, author of "Road Space Map to Successful Retailing in the 90's," an article published in the June 1990 magazine *Drug Topics*. To compete successfully in the 1990s and beyond, he says, a retailer must:

- Invest in technology.
- Find (and exploit) a niche.
- Prize its people.
- Make shopping fun.
- Know its customers.
- Be convenient.
- Know its product offering.
- Widen its vision.

Commenting on those recommendations, retailing authority Peterson says: "Although following Bergin's advice will not guarantee success, not following it will ensure failure. The key to retailing success is constantly to anticipate the future, then to prepare for it by leveraging the firm's distinctive competency." NB

To order a reprint of this story, see Page 76. For a fax copy, see Page 62.

TAXES

Tips For Trimming Your Tax Bill

By Joan C. Szabo

Although the year is almost over, there's still time for small-business owners and individual taxpayers to implement last-minute strategies to reduce their federal tax liability. Keep in mind that the Omnibus Budget Reconciliation Act of 1993 substantially increased tax rates for higher-income individuals, so it makes sense to make as many tax-saving moves as possible.

The 1993 law raised individual tax rates for higher-income individuals, creating a 36 percent rate that applies to taxable income over $140,000 for married persons filing jointly and to taxable income over $115,000 for those filing singly. These higher rates took effect last year and remain in effect for 1994.

In addition, a 10 percent surtax is imposed on taxable income over $250,000 on both joint and single returns; for married individuals filing separately, the surtax is applied to taxable income over $125,000. The surtax effectively raises the top individual tax rate to 39.6 percent from the level of 31 percent before the 1993 law took effect. These higher individual tax rates also affect partners and sole proprietors.

Moreover, certain deductions and exemptions are reduced for individuals with high incomes, which has the effect of producing for some a top marginal tax rate that exceeds 40 percent. Each personal and dependent exemption claimed is reduced by 2 percent per $2,500 increment or fraction of an increment ($1,250 for a married person filing separately) of adjusted gross income in excess of specified thresholds. The applicable threshold depends on a taxpayer's filing status. For married persons filing a joint return, the threshold is $167,700; for a single taxpayer it is $111,800.

The 1993 law also raised the top corporate rate to 35 percent from 34 percent.

The deduction amounts for 1994 have also been increased as a result of the 1993 law. The standard deduction for couples filing jointly is $6,350 in 1994, up from $6,200 in 1993. For those filing singly, it is $3,800, up from $3,700. The amount permitted for each personal exemption is $2,450, up from $2,350 in 1993.

Keep in mind that in 1995 there will be an inflation adjustment in the thresholds for applying the five individual income tax rates; the adjustment will apply also to the personal-exemption and standard-deduction amounts and to the adjusted gross income levels at which itemized deductions are reduced and personal exemptions are phased out.

Those adjustments for inflation will have the effect of increasing the range of taxable income covered by the lower tax brackets as well as the personal-exemption and the standard-deduction amounts. As a result, many taxpayers will have a modest increase in the amount of income they can receive in 1995 without being pushed into a higher tax bracket.

One of the best strategies for many taxpayers is to defer taxable income into next year and accelerate deductible expenses from 1995 into 1994. Assuming Congress doesn't change the 1995 tax rates, this strategy works well if an individual's taxable income is not expected to be substantially greater in 1995 than it was in 1994. An estimate of 1994 and 1995 taxable income is recommended to determine whether this strategy would be beneficial.

To defer income, a business owner using the cash method of accounting can delay sending out December invoices until the last few days of the month so that payments won't be received until 1995. Under the cash method, income is taxable when received and expenses are deductible when paid.

An effective way to accelerate expenses for sole proprietors using the cash method of accounting is to pay as many expenses as possible in 1994, says Steve Kunkel, director of taxes with the Los Angeles firm of Duitch, Poteshman, Franklin & Co. Examples would include prepayment in 1994 of property taxes and mortgage interest due in early 1995.

Following are some of the more significant planning strategies for minimizing tax liability:

Contributions To Retirement Plans

One of the best ways for business owners and employees alike to lower taxable income is to contribute to a tax-deferred retirement plan. Within certain limits, money contributed to a retirement plan is not included in the person's taxable income for the year; thus, contributions help reduce taxes owed. In addition, contributions to a retirement plan can grow tax-free until they are withdrawn.

For high-income earners, the 1993 tax law reduced the maximum annual compensation that can be considered in calculating benefits from and contributions to a qualified retirement plan; the maximum of $235,840 permitted for 1993 was reduced to $150,000—and indexed to go up in $10,000 increments when cumulative increases in the Consumer Price Index reduce the real dollar value of the compensation ceiling by that amount. These rules apply to plans started after Dec. 31, 1993.

To contribute the maximum to a retirement plan, consider pairing it with another form of pension or profit-sharing plan, such as a 401(k) plan, says Gregory J. Sell, who heads the tax section of the Milwaukee law firm of Davis & Kuelthau. For example, a qualified plan can be paired with a 401(k) plan to defer a total of $30,000 annually in retirement benefits for high-wage earners. (For more on retirement plans, see Small Business Financial Adviser, Page 70.)

Medicare Tax

Consider reallocating compensation to minimize the impact of the Medicare

These strategies can help you minimize your 1994 taxes—if you act before the end of this year.

ILLUSTRATION: WILLIAM COULTER

insurance tax. The 1993 tax law eliminated the $135,000 cap on wages subject to the Medicare portion of the Social Security tax. The 2.9 percent Medicare payroll tax is now imposed on all wages and self-employment income. Since employees share the Medicare tax with employers, each paying 1.45 percent, the elimination of the $135,000 ceiling has a greater impact on the self-employed.

To reallocate compensation, Sell recommends that in some instances, S-corporation shareholders should consider reducing their salary and increasing dividend distributions, which are not subject to the Medicare tax.

Equipment Purchases

If you're in the market for new business equipment, buy it before the end of the year. In the past, a business could deduct on an annual basis up to $10,000 of the cost of business equipment instead of depreciating the cost over a period of years. A business now can deduct up to $17,500 of the cost of equipment placed in service during the year. The allowable $17,500 is phased out at a rate of one dollar for each dollar by which total personal-property additions exceed $200,000. "If you place more than $217,500 of personal property in service in a single year, you are not eligible for the current deduction, but must use the usual depreciation rules," says Thomas P. Ochsenschlager, a partner in the accounting firm of Grant Thornton, in Washington, D.C. In addition, the amount deducted is limited to the taxable income you derive from any trade or business.

"The good thing about this particular write-off for self-employed individuals is that it not only reduces taxable income but it reduces self-employment income," says Kunkel, the Los Angeles tax expert. In addition, it is not necessary to spend $17,500 in cash for new equipment. "The purchase can be financed over a number of months if cash flow is tight," he says.

Putting Equipment In Service

A business owner who places machinery or equipment in service before the end of 1994 can get a substantial depreciation deduction, says Samuel Weiner, a partner in the Hackensack, N.J., law firm of Cole, Schotz, Meisel, Forman & Leonard. "Even if the equipment is put in at the end of December, the business owner will usually be able to receive a deduction covering the last three months of the year," he says.

Miscellaneous Expenses

Miscellaneous expenses can be deducted only to the extent they exceed 2 percent of a taxpayer's adjusted gross income. A wise strategy is to bunch miscellaneous deductions together into certain tax years to maximize the deductible excess over 2 percent of adjusted gross income.

What types of expenses are deductible? If you seek advice from an investment adviser about your securities portfolio, the fees you pay to the adviser are tax-deductible. It also is possible to deduct annual fees paid to a bank or another custodian of your IRA and Keogh plan as long as the fees are paid with funds separate from your contributions to these plans.

If you hire an accountant for tax or estate-planning services, you can deduct your costs for those services. You also can deduct fees paid for advice on preparing a will or a trust.

Health-Insurance Premiums

A significant change for the self-employed is the loss of the 25 percent deduction for health-insurance premiums. The deduction expired Dec. 31, 1993. Congress had been expected to make the deduction permanent and possibly expand it as part of a broader health-care reform bill in 1994, but the House and the Senate decided to forgo action on reform when no consensus on a comprehensive health-care bill could be reached.

While the deduction appears likely to be renewed next year (see "Coverage Deduction May Be Restored," November), a taxpayer cannot legally claim it on the 1994 return unless the deduction is restored and made retroactive to 1994 before the return is filed, says Ochsenschlager. If Congress doesn't renew the deduction before the April 15 filing deadline, taxpayers may wish to request an extension of the deadline for filing, in anticipation of the deduction being restored before the extended deadline.

Charitable Contributions

If you give $250 or more to any one charity, keep documentation of the contribution. A written acknowledgment of each donation of that size must be received by the taxpayer before the filing date (or extended due date) of the return for the tax year in which the donation is claimed as a deduction.

If you plan to donate appreciated stock to a private foundation, you probably should do so before the end of the year, says Weiner, the New Jersey lawyer.

If you make such a contribution this year, you'll be able to take a deduction for the full market value of the stock. The provision allowing such a deduction expires at the end of 1994. Beginning in 1995, your deduction will be limited to the original price of the stock.

Ochsenschlager also recommends that a business consider donating to charitable organizations its unusable or unsalable inventory; for the donation to be deductible, however, the goods must be usable by the charitable organization in connection with the functions for which it receives its tax exemption. NB

Immigration Policy's Double Impact

Despite a decade-long reform effort, major problems still surround the way the U.S. deals with undocumented aliens within its borders.

By John S. DeMott

Texas businessman *Ernesto Anaya on the Santa Fe International Bridge between El Paso and Juarez: "Here we have a tremendous potential that comes from Mexico."*

Congress spent the first half of the 1980s dealing with the problems of illegal immigration and the second half with the issue of legal entry. But immigration policy problems have persisted, and small businesses feel their impact both as taxpayers and employers. Illegal immigrants in growing numbers are using welfare, education, and other government services, and those costs are increasing the pressure for tax increases in many states and localities.

As employers, small businesses must cope with regulations requiring them to determine whether job applicants are legally in this country and to keep extensive records of such investigations.

Efforts to ease both problems have been gathering momentum in those parts of the country with the largest immigrant populations, and the issue is expected to be much more visible in Washington over the next few years. Controversy over immigration policy is not new, however. While the open-door policy proclaimed on the pedestal of the Statue of Liberty ("Give me your tired, your poor . . .") has often been cited as the dominant theme of U.S. immigration law, Mark Miller, a professor of political science at the University of Delaware and an expert on immigration, says, "It's a lovely vision, but I don't see us as so wide open."

Neither does Ernesto Anaya, who owns four furniture and electronic-goods stores in El Paso, Texas, and one just across the U.S.-Mexican border in Juarez.

He objects to Operation Hold The Line, which was launched in September 1993 and ran for about seven months. The "line" was a screen of U.S. Border Patrol agents along the Rio Grande where it flows between the two cities. The emphasis was on stopping illegal immigrants—foreigners in this country without the proper documentation—before they enter the U.S., rather than devoting resources to catching them after they've arrived.

The human influx across the 15-mile stretch of the river was curbed by as much as 75 percent during the following seven months, but Anaya says that the only real result was ill will between the U.S. and Mexico. "Here we have a tremendous potential that comes from Mexico, and here you taint it with the Border Patrol," he says. The Immigration and Naturalization Service (INS) has "no sense of what commerce is. It's just like your neighbor all of a sudden puts a couple of guards there to make sure you don't trespass."

But other small-business owners and managers think the federal government should toughen its stance. Take Mickey

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Sternberg, president of Moyco Industries in Philadelphia, a century-old maker of dental supplies; the firm has 140 employees. Sternberg says the U.S. job market is tight enough without competition from people who aren't entitled to work here, and that, he says, "is too much to cope with."

Businesses in the seven states where immigration is heaviest—California, Florida, New York, Texas, Illinois, New Jersey, and Arizona—are struggling to balance, on the one hand, a national policy that favors legal immigrants and bars illegal ones, and, on the other, expand commercial interests in a rapidly changing world of borders that are effectively melting with the North American Free Trade Agreement and the General Agreement on Tariffs and Trade.

"How you balance that equation is not exactly simple," says Wes Jurey, president and chief executive of the 2,000-member El Paso Chamber of Commerce.

The problem is familiar to U.S. business. American employers large and small have been the principal magnets for immigrants for a century. In the late 19th and early 20th centuries, U.S. companies drew on masses of immigrants for low- and high-skilled labor and put them to work building bridges, railroads, automobiles, and highways. Many immigrants prospered and became employers themselves.

PHOTO: GOENNIS BRACK—BLACK STAR

Immigration-reform commission's *Barbara Jordan: Don't make employers "afraid to say yes or no."*

Now, however, immigration is frequently seen by a number of Americans, like Sternberg, as a threat to their own or their employees' economic well-being. That's because the U.S. economy is slowing from its pace of a decade ago, jobs are scarcer than they were when America was expanding vigorously, and global labor competition is pitting highly paid engineers in the United States against lower-paid counterparts in countries such as China and India.

The different viewpoints among business people about immigration show up nationally and regionally.

A Where I Stand poll published in August's *Nation's Business* found that 96 percent of respondents nationwide believe that illegal immigrants to the United States shouldn't receive welfare and other social-service benefits from government agencies.

Moreover, 73 percent of the poll respondents said children of illegal immigrants should be barred from attending U.S. public schools.

In contrast, directors of the San Diego Chamber of Commerce, whose 3,000 members do a lot of business with Mexico, voted overwhelmingly to oppose the idea of restricting state social-service aid to illegal immigrants.

Despite these differences, which are partly rooted in where an individual or company does business, small-business executives do agree that some of their competitors who knowingly or unknowingly hire illegal immigrants use the cheap labor to undercut prices of the vast majority of business owners who play by the rules. (See "Toeing The Line On Hiring," Page 34.)

The hiring of illegal immigrants by some businesses hurts not only other businesses but also hurts immigrants who are in the United States legally. "Those who suffer most acutely are those most recently arrived legal immigrants of the same ethnic group," says California Gov. Pete Wilson.

Business people have been drawn closer than anyone to the immigration issue. Says Miller: "Small employers are where the action is." The reason: Since 1986, under the Immigration Reform and Control Act, employers have been held responsible in effect for enforcing U.S. immigration policy; the law requires them to verify the legal employability status of new employees within three days after they are hired.

As part of the hiring process, employers have to complete INS Form I-9, a record of the documents they checked to determine the identity and employment eligibility of each new hire. The law designates 10 documents that can be used to determine both, plus 12 that can be used only for identity and seven only for eligibility. Says Dave Bolick, executive vice president of the Corona, Calif., Chamber of Commerce: "This made the business executive an enforcement watchdog."

Such documents are easily counterfeited, of course. At hearings this year by the nine-member U.S. Commission on Immigration Reform, witnesses came forth with many examples of forgeries, saying the going rate is $30 for a fake Social Security card and up to $5,000 for phony green cards and birth certificates.

But the I-9 form has had another unintended backlash. Employers, thrust into the role of watchdog in monitoring job applicants for immigration status, began asking for multiple pieces of identification from anyone "who looks or sounds foreign," says Paul Donnelly, a spokesman for the immigration commission, which was set up under a 1990 law to recommend ways to improve U.S. policies. But that caution opened employers to potential charges of discrimination on the basis of national origin.

Attempts to repeal these "employer sanctions" have been unsuccessful, but reform efforts are under way. On Sept. 30, the reform commission proposed that the I-9 form be replaced with a federal data registry, easily accessible by employers, that would verify a person's name and Social Security number. The registry would contain data a "merchant already gets in a credit transaction," says Donnelly, and enough to verify employability.

In announcing the proposal, the commission's chairman, Barbara Jordan, a former Democratic congresswoman from Texas, called for pilot tests in five of the states with the highest levels of illegal immigration. "We ought to have a process," she said, "that doesn't make [the employer] afraid to say yes or no" when considering whether to offer someone a job.

Jordan predicted that the system the commission recommended would reduce burdens on employers because they "will no longer have to make any determination as to employment status."

But initial reaction from the White House, which could put many of the recommendations into place without fur-

ther action from Congress, was cool; one official said the idea was "premature." U.S. Attorney General Janet Reno commended the commission for its work but, in an official statement, didn't mention the registry idea.

A bill introduced in the House earlier this year by California Republican Ken Calvert would have allowed employers to enter a job applicant's Social Security number on a telephone or computer and receive instant confirmation from the Social Security Administration as to the number's validity. But that would determine only that a specific name goes with a number—not that the person presenting the number is who he says he is.

The television news footage showing Haitians and Cubans fleeing to the U.S. this year raised public awareness of the border-enforcement problems that come from illegal immigration. And even before that, heightened tensions over the issue at the state level had encouraged federal efforts to stem such flows.

In some states, illegal immigration was a major election issue. In California, Republican Pete Wilson defeated Democrat Kathleen Brown on Nov. 8, winning re-election to a second term as California's governor after having run on a platform that included immigration control.

Proposition 187, called Save Our State, which amends California law to eliminate or limit state-funded social services to illegal immigrants, also gained voters' approval by a wide margin, though many business executives publicly opposed it.

The San Diego Chamber helped finance an anti-Proposition 187 television commercial, stressing that illegal immigration is not the cause of crime and other problems in California. Such prominent conservatives as former Housing and Urban Development Secretary Jack Kemp and former Education Secretary William Bennett also came out strongly against the measure.

Not all provisions of the initiative are expected to survive constitutional challenges; its true purpose, say California watchers, is to press for federal relief for some of the state's illegal-immigrant expenses.

Gov. Wilson says he will continue the fight for such relief into his new term. "Morally and legally, it is exclusively a federal obligation to secure the border against illegal immigration," he told *Nation's Business*. "Immigration is a constitutionally assigned federal responsibility.

"Only the federal government, the administration, and the Congress . . . can really deal with this. And they have failed."
—California Gov. Pete Wilson

Only the federal government, the administration, and the Congress have jurisdiction. Only they can really deal with this. And they have failed to do so."

He characterized the social-service expense associated with illegal immigrants as "killer costs" that have helped boost California's health-care outlays 18-fold in six years; they now approach 10 percent of the state's general-fund budget, he says. By 1995, according to Wilson, fully 18,000 inmates in the California prison system, or 14 percent of the total, will be illegal immigrants.

Both Florida and California are suing the federal government for reimbursement of money they've spent on social services for illegal immigrants. New federal crime legislation does provide for some reimbursement, but neither state appears to consider the amounts adequate, and both plan to continue pressing their lawsuits.

Of $42 million released for reimbursement by the Justice Department, California got $33 million. According to a state study, illegal immigrants pay $730 million in taxes annually but consume $2.4 billion in costs for emergency health services, incarceration, and education.

"Advocates who insist that illegal immigrants pay their own way are wrong," said Phillip J. Romero, chief economist at California's Office of Planning and Research, which did the study. "To cover the cost of services they receive in California, the average illegal-immigrant household would have to earn $100,000 a year."

The average illegal-immigrant household, Romero reported, "receives $7,760 worth of government services each year, compared to $4,618 worth for the average legal-resident household."

Those findings were partly backed up by an Urban Institute study in September that focused on illegal immigrants in seven states in 1992. That analysis found that while illegals paid $1.8 billion in taxes in those states, just educating their 641,000 children cost $3.1 billion.

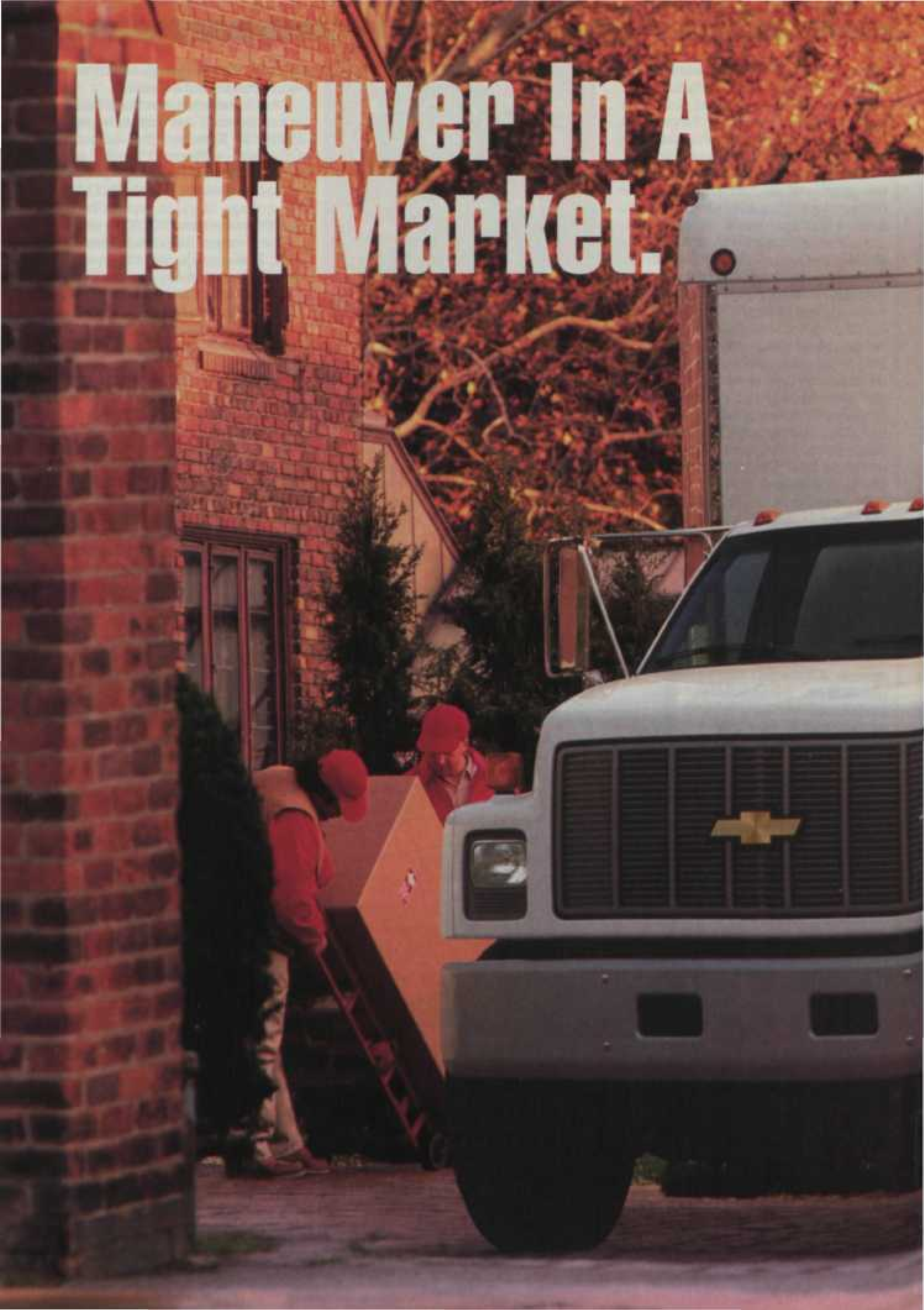
Overall, the impact of immigrants, legal and otherwise, on the U.S. labor force is a matter of much unresolved debate. The National Council of State Legislatures reported on a 1988 study that found Hispanic immigration to America had "no significant negative effect on wage levels of low-skilled native men." But other studies have found just the opposite—that influxes of low-skilled, undocumented aliens do in fact depress a community's wage levels.

Still other Urban Institute studies show that immigrants overall wind up contributing far more than they consume in taxes, creating jobs and wealth in America.

Some international-policy analysts believe the movement toward increased trade among nations could help by improving economic conditions in nations from which immigrants frequently flee. But Jaime Suchliki, a University of Miami history professor and expert on emigration from Latin America, says freer trade is not likely to turn Mexico, with an annual population growth of 3 percent, "into a haven of stability—and all of a sudden, everybody stays."

Meanwhile, U.S. immigration policy seems schizophrenic—"sort of what you'd get if you combined the Internal Revenue Service with the Department of Health and Human Services," says one official. When plans for change might be forthcoming from the Clinton administration is uncertain, but there's no sign that the push from the states for the federal government to tighten up will stop. Referendums like the one in California may be just the beginning. NB

CHART: GEORGIA MCDONALD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IMMIGRATION

Toeing The Line On Hiring

Ignorance of the law can result in substantial penalties for any firm regardless of size.

By Rosalind Resnick

For veterinarian Thelbert Childers, learning about federal immigration law proved expensive.

Four years ago, Childers, the owner of Lovers Lane Animal Hospital in Dallas, got an unexpected visit from the Immigration and Naturalization Service. The INS agent asked to see the animal hospital's file of I-9 forms, which employers must complete to establish their employees' right to work in the United States. Childers, who employs 30 workers at the hospital, says he had no idea what the agent was talking about.

His ignorance cost him plenty: The federal government slapped him with a $7,500 fine, which was later reduced to $5,900—even though he had never hired an illegal worker. "It cost too much to fight," says Childers.

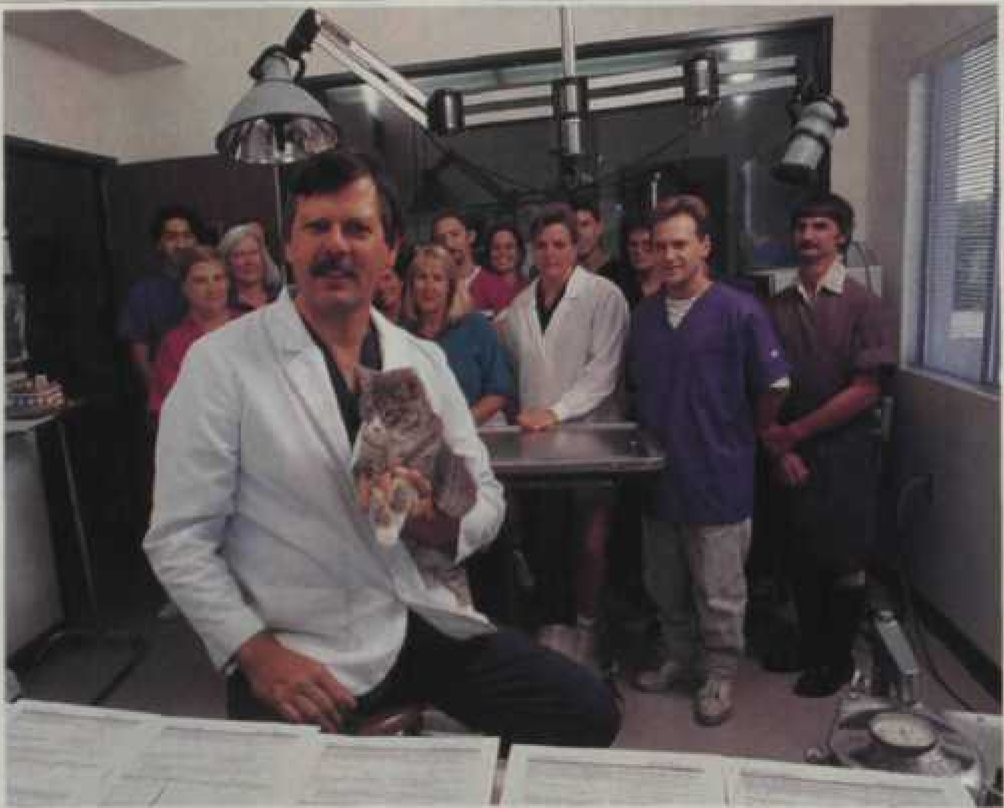

PHOTO: JOHN R. FULTON JR.

Dallas veterinarian *Thelbert Childers paid a $5,900 fine for failing to maintain files on the immigration status of his employees. "It cost too much to fight," he says.*

Eight years ago, Congress passed the Immigration Reform and Control Act (IRCA), which bars hiring of illegal immigrants but also imposes penalties on employers who discriminate against workers on the basis of national origin or citizenship. Today, some small businesses still remain in the dark about their legal responsibilities under the law. The INS says 89 percent of the 8,000 businesses it surveyed were in compliance with I-9 regulations in 1992, compared with 50 percent in 1988. The survey didn't break the companies down by size.

Because small companies, unlike large corporations, typically get along without a personnel department, some small firms fail to abide by the law out of ignorance or reluctance to take on additional paperwork. At the same time, some small businesses miss out on opportunities to put highly qualified foreign workers on the payroll because the firms are unaware of the wide variety of perfectly legitimate ways to obtain legal status for these prospective employees.

Before enactment of the 1986 immigration law, which shifted the burden of compliance to employers, companies that hired illegal immigrants were not penalized. Now, employers are barred from "knowingly hiring, recruiting, or referring for a fee any alien not authorized to work in the United States." And unlike some other federal laws that exempt small firms, the immigration law applies to companies with one employee or more.

Lawrence Lataif, a business-immigration specialist in the Miami office of the Chicago law firm of McDermott Will & Emery, cautions employers to "treat every immigration [I-9 form] filing seriously." While employers shouldn't be intimidated by the process, it's important to remember that, like an income tax return, the I-9 is a formal filing under oath with a government agency and carries serious civil and criminal penalties for deliberate misrepresentations.

Employers who break the law face fines of $100 for each offense plus punitive fines of up to $10,000 for repeated violations. To abide by the law, employers have to verify the legal work status of every new employee by completing the I-9 form, which is one of the statute's trickiest areas.

The law requires an employer to verify a new employee's work eligibility within three days of hiring. A worker must present one or more documents listed on the back of the I-9 form to establish his or her identity and eligibility to work legally.

Documents establishing identity and eligibility fall into three categories. In the first, identified as List A, are these documents, which satisfy both the identity and the eligibility requirements:

- A U.S. passport (unexpired or expired).
- A certificate of U.S. citizenship.
- A certificate of naturalization.
- An unexpired foreign passport with an I-551 stamp or an attached INS Form I-94 indicating unexpired employment authorization.
- An alien registration card with photo.
- An unexpired temporary-resident card.
- An unexpired employment-authorization card.
- An unexpired re-entry permit.
- An unexpired refugee travel document.

■ An unexpired employment authorization document issued by the INS that includes a photo.

Employees who do not have any of these documents must show two separate documents, one establishing identity, the other establishing employment eligibility.

Documents on List B, establishing only identity, are:

■ A driver's license or an identification card issued by a state or outlying possession of the United States.

■ An ID issued by a federal, state, or local government agency or entity.

■ A school ID with photo.

■ A voter's registration card.

■ A U.S. military card or draft record.

■ A military dependent's ID.

■ A U.S. Coast Guard merchant mariner card.

■ A Native American tribal document.

■ A Canadian driver's license.

(The following three documents can be used by persons under age 18 who are unable to present any of the ID documents listed above: a school record or report card; a record from a clinic, hospital, or doctor; a day-care or nursery-school record.)

Documents on List C, establishing only employment eligibility, are:

■ A Social Security card (except a card that states that it is not valid for employment purposes).

■ A certification of birth abroad issued by the U.S. State Department.

■ An original or certified copy of a birth certificate bearing the seal of a state, county, municipal authority, or other U.S. possession.

■ A Native American tribal document.

■ A U.S. citizen ID card, or the similar ID for use of a resident citizen in the United States (both once furnished as a courtesy to U.S. citizens who wanted further ID—especially in border areas; no longer issued but still acceptable in establishing employment eligibility).

■ An unexpired employment-authorization document issued by the INS (other than those listed under List A).

Employers should keep on file copies of the documents presented, Lataif recommends; this can help bolster the employer's defense should the papers turn out to be forgeries.

While the procedure of checking documents and filing a form may seem straightforward, employers often unintentionally violate the law, Lataif says. Some employers fail to complete the form. Others, in an effort to avoid hiring an illegal worker, unwittingly commit acts of discrimination that can result in fines.

For example, an employer may give I-9 forms only to job candidates with foreign-sounding names or accents; under the law, employers must complete I-9 forms for all new hires. Other times, an employer might ask an employee to display a particular document—a passport, perhaps, or a "green card" showing permanent residency status—instead of letting the employee choose which document to present, as required by law. (See the box on Page 36.) The law explicitly prohibits discrimination based on national origin or citizenship status.

"Employers who ask for extra or different identification because they are unfamiliar with one of the many acceptable documents or wish to 'play it safe' have committed discrimination," says Andrew Karabetsos, an immigration lawyer at Widman Goldberg & Zulkie, in Chicago.

Avoiding immigration-related discrimination can actually be quite simple if employers take the following precautions:

■ Treat all candidates the same when announcing a job, taking applications, interviewing, offering the job, hiring, filling out the I-9 form, or firing.

■ Avoid citizens-only hiring policies or requirements that applicants have a particular immigration status, unless it's required by law.

■ Give the same job information by phone to all applicants, and use the same application forms for all.

■ Base all firing decisions on job performance, or behavior, or both, not on the employee's appearance, language, name, or citizenship.

Employers must complete the I-9 form and keep it on file for at least three years from the date of employment or for one year after the employee leaves the job, whichever is later. Businesses must also make the forms available for government inspection.

PHOTO: JOE STEWARDSON

An immigration lawyer *helped dairy and livestock farmers Humberto and Nora Migone, left, obtain permanent residency status. With them are their children Michelle and Humberto.*

Despite the complexity of the immigrant-hiring process, immigration lawyers say employers should not shy away from qualified foreign employees. The experts note that it's often possible to obtain work visas in a relatively short time.

The three major temporary work visa classifications are the L-1 (intracompany transfer), H-1B (professional), and E-1/E-2 (treaty trader/investor).

With the L-1 visa, a company can transfer an employee from a unit abroad to an affiliate in the United States as long as there is at least half common ownership. To qualify, the employee must have worked for the company abroad for 12 of the preceding 36 months in an executive, managerial, or specialized-knowledge position and must be joining the U.S. affiliate in a similar capacity. An L-1 visa can be issued for up to three years and renewed for four more years.

The H-1B professional visa permits foreign workers with the equivalent of a

four-year U.S. bachelor's degree in a specialized field to work in the United States for up to six years. To obtain an H-1B visa for a foreign employee, the sponsoring company must certify that it will pay the worker the prevailing wage for that occupation or the actual wage paid to similar workers within the company, whichever is higher. The U.S. annual limit of 65,000 H-1B visas has been sufficient to meet demand, Lataif says.

E-1/E-2 visas, which are not often used by small companies, are available to nationals of a country with which the United States has a treaty regarding work visas. Unlike the L-1 and the H-1B visas, these visas have no limit on length of stay and do not need INS approval; the foreign worker can stay as long as he or she likes simply by presenting the appropriate company documentation to a U.S. consular post abroad.

To qualify for E-1/E-2 visas, the worker must be employed by a company owned at least 50 percent by nationals of the treaty country. The worker must also be a national of the treaty country, and the sponsoring company must be making a substantial investment in an active U.S. business or engaging in trade between the United States and the treaty nation.

While L, H, and E visas generally take several months to process, the action can sometimes be expedited and completed in a day. Legal fees vary depending on the length and complexity of the procedure.

Humberto Migone, president of Humo Corp., a Washington, Ga., livestock and dairy operation with four employees, was able to obtain an L-1 visa shortly after he arrived in this country in April 1991.

Migone, who had operated an agricultural business in his native Peru, decided to move his family to the United States after guerrillas tried to kidnap him when he refused to contribute money to their military campaign. After consulting with Miami immigration lawyer Barbara Warren Loli, Migone formed a U.S. corporation in July of that year and got the L-1 visa in October 1991. Now, Migone, his wife, Nora, and their three children all have permanent residency status.

Nora Migone, who is the company's secretary, says the family business is thriving. Though the 428-acre operation has not yet started selling beef, the company's dairy has already been ranked as one of the best in the area.

As the Migones' experience shows, the best way to comply with federal immigration law is to follow it to the letter, hiring an immigration-law specialist if necessary. Otherwise, your company could end up learning the hard way. NB

Rosalind Resnick is a free-lance writer in Hollywood, Fla.

To order a reprint of this story, see Page 76. For a fax copy, see Page 62.

Are You Breaking The Law?

This quiz, provided by the U.S. Department of Justice, can help you determine if you are knowledgeable enough about the 1986 Immigration Reform and Control Act (IRCA) to help your company avoid violating it.

1. Your crew boss catches you before you start interviewing people for a job. He says, "Find out if those two near the door have their green cards before you waste your time." You follow his advice.
Did you discriminate in hiring?
Yes. No.

2. You are the president of your company. After hearing about IRCA's penalties for hiring undocumented aliens, you issue a memo to your staff stating: "Let's go along with the government on this one. Please be careful when hiring people who look like they crossed the border illegally."
Have you committed national-origin discrimination?
Yes. No.
Have you committed citizenship-status discrimination?
Yes. No.

3. The rainy spring caused your lettuce harvest to be less abundant than usual. Now you realize you need fewer farm workers than you hired for the season. In deciding between employees Hector Fernandez and Jose Gonzalez, you keep Fernandez because he is a permanent resident and fire Gonzalez because he has only a temporary work permit.
Have you committed citizenship-status discrimination?
Yes. No.

4. You hire Lily Chou after she tells you she has beaded sweaters in Taiwan. When you ask her to produce the necessary documents to complete the I-9 form, you're surprised when she hands you a California driver's license and an unrestricted Social Security card. "Miss Chou," you tell her, "I must see a card from the INS."
If you dismiss Lily Chou for inadequate documentation, does she have a case against you?
Yes. No.

5. Your company manufactures precision cast parts. Ordinarily, any one of your 12 employees would know someone who could fill an open position. You tell your workers privately that you prefer that they bring applicants who are U.S. citizens—and you fill out the I-9 form for applicants they bring.
Are you in compliance with IRCA?
Yes. No.

6. You hire Billy, John, Paul, and Sam just for a weekend to clean windows in your office building. You would have hired Ngo, too, except that he "looked too foreign."
Are you violating the anti-discrimination provision?
Yes. No.

7. Three men apply for a job managing the front desk of your hotel. One has more experience than the other two, but you refuse to hire him because all he can produce is an unexpired French passport. You ask him for a driver's license. The next person has only a temporary-resident card that expires in nine days. That's too close for comfort, so you hire the third applicant, who has a valid Canadian driver's license.
Are you discriminating?
Yes. No.

8. The person you choose to run your Jacquard loom is unable to produce documentation for the I-9 form. She says she will send for it, but you turn her down because you didn't want to get bogged down in paperwork. You hire your second choice, a woman with less experience but with valid papers in hand.
Did you violate the immigration law?
Yes. No.

Answers: 1-Yes, 2-Yes, Yes, 3-Yes, 4-Yes, 5-No, 6-Yes, 7-Yes, 8-Probably.

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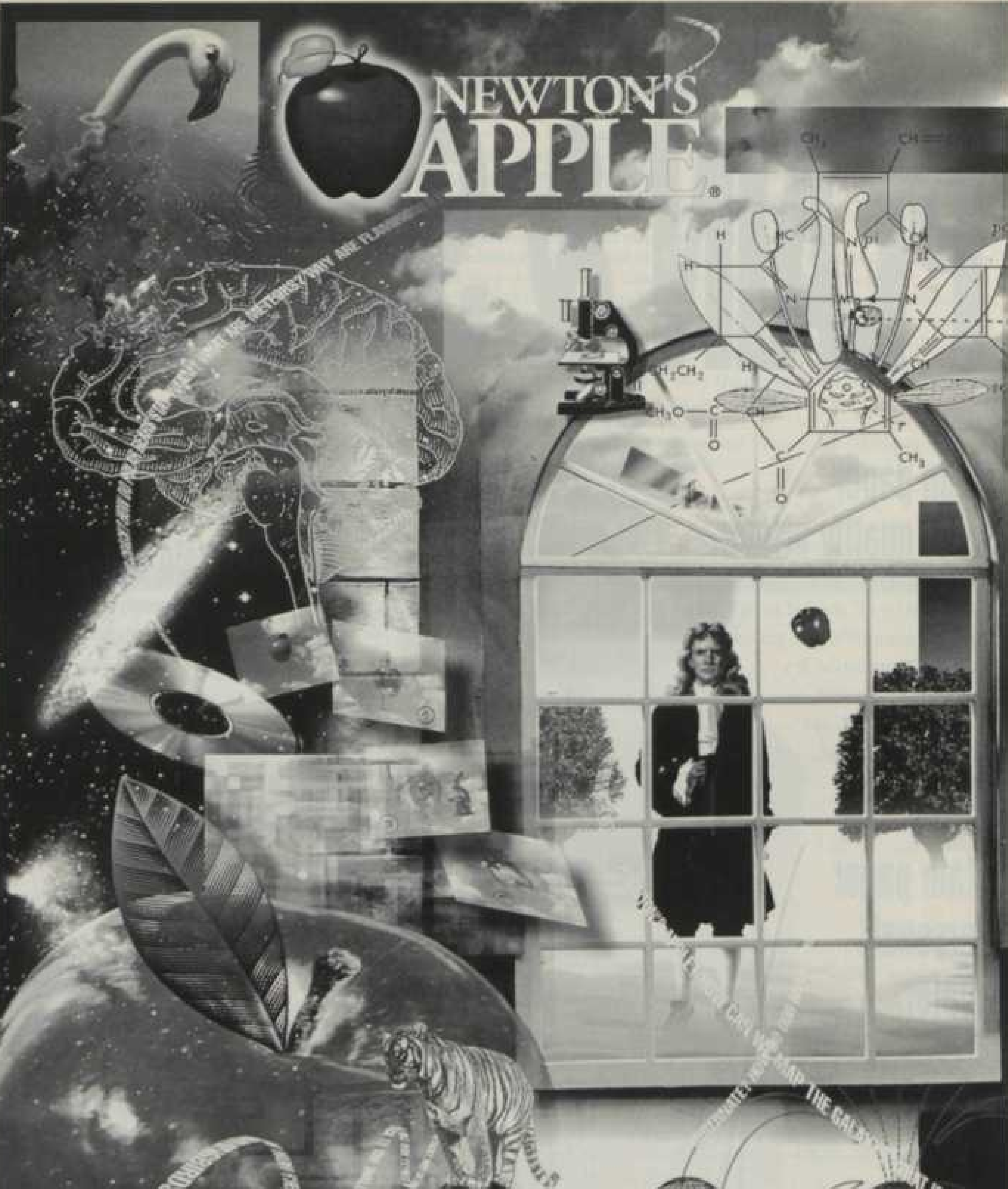
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MARKETING

Is It Time To Join The 800 Network?

A toll-free number could expand your reach and your profits—if you are prepared to take a large number of calls.

By Peter Weaver

Small businesses that have great products but no chance of landing nationwide retail shelf space shouldn't be discouraged. They can still sell coast to coast with their own "electronic" shelf space on toll-free 800 numbers.

"It's at the point now that if you don't have an 800 number, it's like not having a fax machine," says David Kissell, sales director for Alert Communications, a Los Angeles-based telephone-marketing service company.

A major plus of an 800 number is access. It gives a small company the market presence and customer-service clout of a big corporation. That's important because it's difficult to introduce a new product or service unless there's quick, customer-friendly access to it.

Adding an 800 number will raise your total phone costs, of course, although basic rates have come down significantly. But effective use of an 800 number also requires that you make your number known throughout the country, that you prepare for a large volume of incoming calls, and that you get ready to fill promptly an increased number of orders.

If you join the 800 network, you won't be alone. According to industry statistics, some 2.5 million 800 numbers are in use, and there could be close to 4 million by this time next year.

Telephone companies say the biggest growth in 800 numbers is among small businesses. One reason, they explain, is the cost. Although use of various added features can add up, basic 800-number service can be inexpensive. (See the chart, Page 38.)

"It costs a lot less than it used to—as little as $5 a month [plus the cost of calls]—and there's no special equipment required. You can be set up within 24 hours," says Monty Hoyt, media-relations manager for AT&T.

Others agree, while citing additional reasons for the popularity of 800 lines. "A number of small businesses have been started by people who used to work for big businesses, and they brought the 800-number marketing tool with them," says Larry Banks, product marketing manager for Sprint. Once they find out 800 numbers won't cost them too much, they sign up, he adds.

Neil Hediger, MCI's senior manager for brand marketing, says the boom in small-business 800 numbers can also be traced to the fact that the phone companies finally tapped a fertile market. "Our company and others a couple of years ago started actively marketing 800-number services to small businesses," he says, and the result has been "a tremendous increase in acceptance and use of the 800 number by small businesses."

Another reason for the spread of 800 numbers is portability. In the past, when you wanted to change telephone companies—for better rates or different services, perhaps—you had to get a new 800 number. Now, as a result of a Federal Communications Commission ruling, effective last year, you can take your number with you from one carrier to another, avoiding the expense of printing new stationery, business cards, and invoices.

Until 1987, only AT&T offered 800 numbers. Now, there's intense competition among more than 400 companies, ranging from the big-three long-distance companies—AT&T, MCI, and Sprint—down to mom-and-pop answering and order-taking services.

Although the basic service is usually inexpensive, adding features can run up the cost. Among those features are routing of calls within your business, automated menus, call-forwarding, and after-hours service. It also costs more to add lines so there can be separate numbers for, say, customers, or suppliers, or employees calling in from the road.

As you go about getting your 800 number, you should also prepare for what you hope that number will bring: increased revenue that will flow to your bank account through credit-card sales.

"One of the biggest mistakes small businesses make is not getting credit-card merchant accounts set up well in advance of sales campaigns," says Michelle Willard, specialty-market service manager for DMGT, a credit-card processor in Nashua, N.H. The merchant account number is used by banks to transfer to your account the net cash from credit-card sales after the bank deducts its fees. "It may take a month or longer to set up your merchant's account," says Willard, "and you can't start taking orders until all the paperwork is done."

To get the word out to prospective buyers about your 800 number also requires planning. First, "you put your 800 number on your letterhead, invoices, calling cards, fax messages—everywhere you can," says Shelley Miller, president of

PHOTO: ©TODD BUCHANAN

Firms using 800 numbers *can "fall short," says Jaffer Ali, president of Fusion Fulfillment Services, by not "cashing in on subsequent sales after the first order."*

MARKETING

Information Technology Consultants, in New York City. "It's like planting seeds."

Another important step: Make sure the number is in the national 800-number directory accessed via information-assistance calls. Consider the Yellow Pages in other cities where you think your product or service will sell. Check out niche publications that appeal to people who might be especially interested in your product or service. Libraries have directories that list hundreds of local, regional, and national publications.

"To get our 800 number out, we cross-advertise in all of our 10 publications," says Cheryl Beyer, office-services specialist with Kalmbach Publishing Co., in Waukesha, Wis. Last year Kalmbach, which publishes primarily hobby magazines such as *Model Railroader* and *Astronomy*, received more than 260,000 toll-free calls, says Beyer.

Once you get an 800 number and get the word out about it, you'll have to handle all the calls. You can have the phone answered at your place of business, or, if volume gets too heavy, you can farm out the service to companies that specialize in taking 800-number orders. They can be small, independent outfits with relatively few operators or big telephone companies with whole floors of operators.

Having an 800 number, whether answered at your place or at a service company's switchboard, may spark the need for other services such as fulfillment (taking orders, shipping out the product), and handling credit-card sales.

"In the '80s, small businesses handled all the 800-number sales and service functions in-house," says Jaffer Ali, president of Fusion Fulfillment Services, in Chicago. But answering a lot more phone calls and processing a lot more orders as well as handling credit-card sales can overload your staff in a hurry.

"Now, to save money by not having to hire more staff," says Ali, "outsourcing the answering service, fulfillment, credit-card handling, and customer service is becoming much more common for small businesses."

Nonetheless, some small businesses may have special customer-relations reasons for handling the 800-number functions in-house. "We use our own people to man the phones," says Daniel J. Pederson, president of Detroit-based Savings Bond Informer, "because we want to have control over the training and the way we interact with our client base." His company offers savings-bond investors customized reports on purchase and sales-timing issues, interest rates, current values, and maturity dates. "It's too tricky for someone else's operators to handle," Pederson says.

But it doesn't have to be an either-or decision between handling it all yourself or having someone else do it. "We use a special MCI service that switches incoming calls to [MCI] operators after hours and on weekends," says Kris Bloomer, director of sales for the HealthRider exercise-machine company, based in Salt Lake City. The company airs TV infomercials for its exercise machine, and prospective buyers may call early in the morning or late at night.

PHOTO: STM KELLY—BLACK STAR

At the HealthRider *exercise-machine company, "a real person" answers 800-line calls, says sales director Kris Bloomer.*

Basic Charges For 800-Number Service

	Per Month	Per Minute
AT&T	$ 5	26 to 27 cents
MCI	$ 5*	16 to 26 cents
SPRINT	$ 5	25 cents

Rates are for weekday business hours. Per-minute charges vary depending on time of day, distance, and volume.

*$5 for the first three months, then $10.

SOURCES: AT&T, MCI, SPRINT

CHART: GEORGIA MCDONALD

"It's an emotional purchase," Bloomer says. "They see the commercial, make a phone call, and if a real person isn't there to take the order, we usually lose them."

According to 800-number service providers, some small companies, trying to save money, start by having the phones open only during business hours. But they learn they are losing customers who want to call after dinner or on weekends.

Regardless of your hours or who answers your phones, you need to check out all the caller and fulfillment functions in advance. Have company employees or friends call in some orders to see what happens. Then you can correct faulty coding and other mistakes before they cost you in lost sales.

Getting customers to place the initial order is half the battle. Getting them to keep on buying other products is the other half. "Where most small businesses fall short with their 800 numbers," says Fusion Fulfillment's Ali, "is not cashing in on subsequent sales after the first order." For this, he says, you need to build a customer data base, including addresses and past purchases.

"We've used an 800 number to capture demographic information to make a sophisticated marketing data base for our clients," says Bar Biszick, president of Music Access, a Brooklyn, N.Y., company that gives callers on-line phone excerpts from hit records.

In a promotion to launch *Vibe* magazine, aimed at pop music fans, Music Access got callers to use their phones' push buttons to communicate age, sex, and ZIP code before they could hear the recorded music. "*Vibe* had pinpoint statistics for advertisers as to who was buying, reading, and using the magazine," Biszick says.

Telephone companies are devising other ways to make 800 numbers more accessible for processing orders or handling customer-service queries. AT&T, for example, has a "speech-recognition technique" that lets callers speak rather than punch in numbers as prompted by the menu, says spokesman Hoyt.

If you're not certain whether the cost of an 800 number is worth the investment, you might consider a test. "Try out an 800 number for a while and see how it works," says Miller, of Information Technology Consultants. "You don't have to sign up for a lengthy period." NB

To order a reprint of this story, see Page 76. For a fax copy, see Page 62.

REGULATION

Weighing The Risks

Federal agencies are being pressured to concentrate on the most serious threats to health and safety.

During 1994, Congress and the White House began to question in a serious way how federal agencies devise regulations to implement the laws that legislators write and the president signs.

Two major questions raised frequently were whether agencies were basing regulations on the best-available scientific data and whether their rules were targeting public-health risks cost-effectively.

The reasons behind this heightened attention? The American public has grown increasingly skeptical about how federal tax revenue is being spent as the impact of regulation has moved closer to home. Clean-air rules, for example, are now affecting how people in some metropolitan areas travel to work and how frequently they mow their lawns and use backyard grills.

Official Washington has begun to respond by trying to ensure that funds for regulation are spent in the most cost-effective way. The belief among some lawmakers and skeptics among the public is that there may be better ways to get a bigger bang for the buck.

Many in Congress want the Environmental Protection Agency, whose regulations have some of the biggest economic impacts, to give top priority to the most serious threats and the ones least costly to reduce. They want to direct the agency to conduct risk assessments and cost-benefit analyses for most new rules it issues and to publish the studies.

Risk assessments involve determining the level of risk and then comparing the risks to identify the most serious. Cost-benefit analyses weigh the projected costs of regulations against the benefits.

Depending on whom you talk to, this movement either threatens to roll back public health and safety protections or promises to open a new era of more practical regulatory decision making throughout the government.

Environmentalists say several bills and amendments proposed in Congress during the past year to require cost-benefit analyses and risk assessments were actually aimed at delaying new environmental regulations. While the EPA conducts risk assessments in devising many of its rules, it doesn't conduct them on all rules. Some of the proposals in Congress this year would likely have created a more rigorous—and therefore slower—rule-making process, they say.

"If we overburden the agency with so much paperwork, we worry it will divert resources away from protecting the environment," says Suellen Lowry, a staff attorney with the Sierra Club Legal Defense Fund in Washington.

Lowry adds that analyzing the costs and benefits before issuing a regulation requires judgments that could be politically charged. "Try to put a dollar value on, say, safe drinking water in a community," she says.

In recent months, EPA officials have stated publicly that they also think backers of risk-assessment legislation really want to slow regulators down. They maintain that the agency already conducts plenty of risk assessments—more than 7,000 last year. "We don't want to create paralysis by analysis," says Lynn Goldman, assistant administrator of the EPA.

But to business groups, giving more weight to risks can help ensure that laws and regulations—and the money spent to comply with them—are directed at the problems posing the greatest dangers to public health and safety. The EPA estimates, for example, that the costs to society of complying with its rules alone exceed $150 billion a year.

"Business is not seeking less regulation. It is seeking smart regulation," says Mary Bernhard, manager of environmental policy for the U.S. Chamber of Commerce. "We're saying to the agency that we're asking you to do what we do in our own

The Costs Of Saving A Year Of Life

These cost estimates for saving one year of life—by type of preventive measure or by selected federal agencies—are drawn from hundreds of economic analyses. They are median net costs—direct costs reduced by offsetting savings.

Preventive Measure	Cost
Childhood immunizations	Less than zero*
Drug and alcohol treatment	Less than zero*
Helmet protection	$2,000
Water chlorination	$4,000
Fire, heat, and smoke detectors	$5,000
Highway improvements	$64,000
Automobile design changes (such as side-impact protection and collapsible steering columns)	$67,000
Asbestos controls	$1,865,000
Pollution control at paper mills	$7,522,000
Radiation controls (at industrial sites and for radiologists)	$27,386,000

*Costs are outweighed by savings to society

Regulatory Agency	Cost
Federal Aviation Administration	$23,000
Consumer Product Safety Commission	$68,000
National Highway Traffic Safety Administration	$78,000
Occupational Safety and Health Administration	$88,000
Environmental Protection Agency	$7,629,000

SOURCE: CENTER FOR RISK ANALYSIS, HARVARD UNIVERSITY SCHOOL OF PUBLIC HEALTH

families: You budget, and you set priorities."

The greatest pressure has been on the EPA because the focus of environmental regulation is now on smaller sources of pollution where risks to the public health are not as obvious as they were when major environmental laws targeting major sources of pollution were passed in the 1970s.

A recent study by the Center for Risk Analysis, part of the Harvard School of Public Health in Boston, underscored this point. In a study of various interventions designed to save lives, researchers found that the median cost to save one year of life through environmental protections was far higher than many other types of interventions, such as car safety features or childhood immunizations. (See the chart on the previous page.)

In the Senate this year, amendments were added to two environmental bills that would have required the EPA to conduct risk assessments and cost-benefit analyses of major new rules. The amendments were approved during Senate debate on the Safe Drinking Water Act and a bill to elevate the EPA to Cabinet level, but both measures died when the House adjourned without voting on the legislation.

Similar amendments also were considered during committee debates on legislation to reauthorize the Superfund hazardous-waste law and the Clean Water Act and to encourage development of environmental technologies. Those bills also died.

The push for scientific assessment of risks to public health and safety as a basis for regulation extends to other government agencies as well.

Before Congress adjourned for pre-election campaigning in October, for example, it passed an Agriculture Department reorganization measure requiring the agency to conduct risk assessments and cost-benefit analyses whenever it considers environmental regulations that are expected to have a national economic impact of more than $75 million a year.

At the White House, President Clinton has taken a different approach to risk assessments, pushing for changes to occur administratively rather than through legislation. Last year, he signed an executive order that said, "to the extent reasonable," regulators should take risks into account when setting priorities.

"Business is not seeking less regulation. It is seeking smart regulation."
—Mary Bernhard, U.S. Chamber of Commerce

As the debate continues, all sides agree on two things: Making assessments is not a perfect science, and more funding is needed to help scientists advance the use of them.

Several recent reports have called for efforts to reduce the scientific uncertainty associated with risk assessments. Late last year, for example, the Office of Technology Assessment, a research arm of Congress, released a report that said federal research into improving risk assessments is too decentralized, with 12 agencies conducting independent efforts. The report urged a more centralized approach and greater funding.

Government too often responds to public pressure to address particular threats to public health, rather than choosing the risks that are truly greatest, says John Graham, director of Harvard's Center for Risk Analysis. He adds: "I would say that there is deep concern in the scientific community that the government and the media suffer from a risk-of-the-month syndrome." NB

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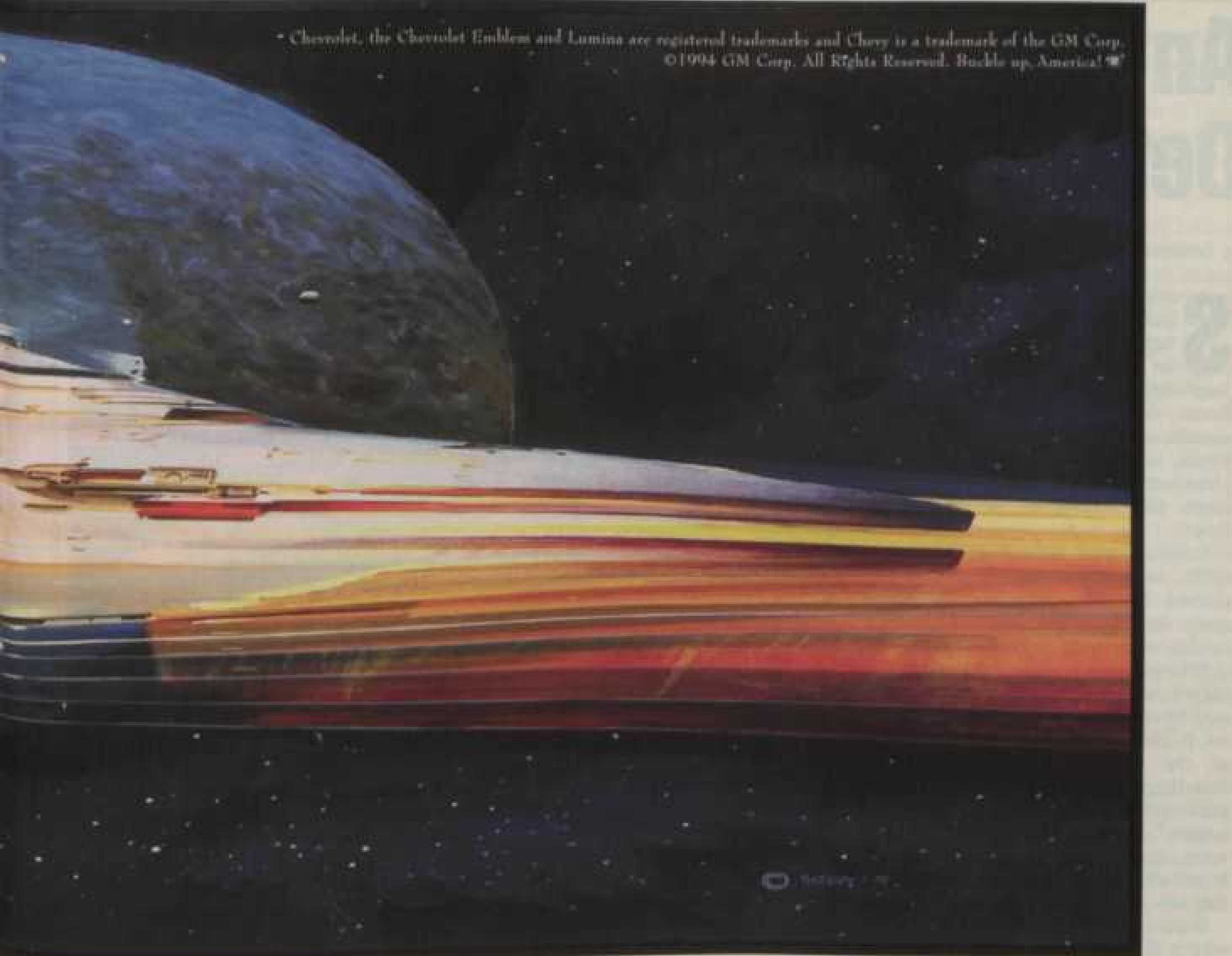

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LEGISLATION

An Effective Defense

When business flexed its muscle on Capitol Hill this year, it was usually successful in blocking measures it opposed.

By Laura M. Litvan

Small businesses had a stake in almost every high-profile debate on Capitol Hill this year—with health-care reform dominating the agenda, and other important issues, such as striker replacement and the environment, also coming to the fore.

Business used defensive skills more often than it pushed for bills. And in many instances, the hold-the-line maneuvers worked.

"The business community played well [on] defense," said former Rep. Bill Frenzel, R-Minn., a guest scholar at the Washington-based Brookings Institution, a public-policy think tank. "Of course," he noted, "it's always easier keeping bills from being passed than getting bills passed."

The anti-crime law *is helping localities hire 100,000 police officers nationwide.*

Business benefited from a voting bloc formed by Republicans and moderate Democrats that overpowered the chief goals of organized labor and environmentalists, as well as President Clinton's agenda for health-care reform.

Also aiding business was the group of independent-minded lawmakers elected in 1992. Having campaigned against Washington to win, many were set on changing Congress' eroding reputation and on improving the economic climate. That made them skeptical of proposals that might increase government spending or negatively affect the private sector—positions typically adopted by business.

Business lobbyists found many newcomers in both parties more pragmatic than ideological, says R. Bruce Josten, senior vice president for membership policy at the U.S. Chamber of Commerce. As a result, he says, many freshmen "tended to be their own man or woman rather than following a clear party line."

Meanwhile, many environmentalists and labor leaders were dismayed at how the session played out. "What we're seeing is a fundamental disconnect between what the public wants and what Congress is doing," says Diane Dulken, a spokeswoman for the Natural Resources Defense Council, in Washington, D.C.

"For the bulk of the American people, not just working people but for people all across America, it wasn't a very successful session," says Robert McGlotten, chief lobbyist for the AFL-CIO. "It was a dismal failure."

Some bills that were pushed by labor and environmentalists didn't fare well in Congress this year. Among those measures were rewrites of the Clean Water Act and the Superfund hazardous waste law, as well as an overhaul of the 1970 law that created the Occupational Safety and Health Administration.

Although environmentalists had friends in the Democratic leadership, they had problems. In committees or on the floor, their bills were loaded up with amendments from Republicans or conservative Democrats. They focused mainly on three goals that environmentalists called the "unholy trinity":

- A ban on unfunded mandates on state and local governments.
- A requirement that regulators assess the health risks their rules are supposed to reduce and analyze economic impacts.
- Compensation for property owners when their land's value is "substantially" reduced by regulations.

These issues are expected to re-emerge next year, with advocates tying them into other regulatory debates.

Meanwhile, several business-backed measures were approved and signed into law. These included a bill establishing national education standards, a measure easing the government's complex process for purchasing goods and services, and a bill extending China's most-favored-nation trading status for a year.

Following are major legislative issues considered in Congress this year:

Health-Care Reform

Although it was by far the dominant issue of the session, it was never voted on in either house. A mandate that employers pay for their workers' health care—the financing linchpin in the president's plan—met with so much opposition from the U.S. Chamber and other groups that lawmakers began retreating from comprehensive proposals, ultimately failing to agree even on scaled-down versions.

Striker Replacement

The House voted in mid-1993 to bar employers from permanently replacing employees who walk off their jobs for higher wages and other economic benefits. The focus this year shifted to the

Senate, where organized labor pushed hard for a floor vote, which business fought. But labor and its allies had too few votes to cut off a filibuster. Sixty were needed, but the final tally in the Senate was 53 to 46.

PHOTO: [illegible]

The "Goals 2000" law *establishes national education standards and objectives.*

Deficit Reduction

Fierce lobbying from business couldn't save an effort to amend the Constitution to require a balanced budget unless a three-fifths "supermajority" in each house agreed to an exception.

Ultimately, the amendment—which needed a two-thirds majority to pass before going to the states for ratification—failed in the House by 12 votes and in the Senate by four votes.

Crime

The $30 billion anti-crime bill approved by Congress and signed by Clinton is helping localities hire 100,000 police officers nationwide. It also funds prison construction and crime-prevention programs, and it expands the death penalty to dozens of additional offenses.

The measure also bans 19 assault weapons and requires life sentences for those found guilty under federal law of a third felony—the "three-strikes-and-you're-out" provision.

Product Liability

Business suffered a setback when legislation that would have limited product-liability lawsuits died in the Senate after a vote to end a June filibuster failed by three votes.

The legislation, opposed by consumer and trial lawyer groups, would have limited the amount of punitive damages juries can award for injuries caused by faulty products.

The bill also would have prohibited most product-liability claims against equipment 25 years old or more and would have pushed for more settlements and fewer trials and pre-empted a patchwork of state laws.

Clean Water Act

Revisions to the Clean Water Act never made it to the floor in either house, although the Senate Environment and Public Works Committee approved a bill.

Environmentalists pushed for a stricter law, including a greater focus on "nonpoint" pollution, such as agricultural runoff; longer prison stays for polluters; and more restrictions on development of wetlands. Business representatives opposed such efforts, pointing to water-quality improvements under existing law and calling for more flexibility for manufacturers that have water-discharge permits.

Superfund

A Clinton administration effort to revamp this law governing cleanup of hazardous-waste sites also died, even though five committees approved bills to speed cleanups. Overhaul proponents acknowledged in early October that they had run out of time and would have to start over in 1995. A lack of consensus among business groups contributed to the effort's demise.

Education

Congress cleared Clinton's $400 million "Goals 2000" school-reform initiative in March, writing into law national education standards and goals for the first time. Business, seeing many entry-level workers lacking basic skills, backed it.

In April, Congress passed a school-to-work measure that authorizes $300 million for 1995 to help students who are going from high school to work.

Bankruptcy Reform

Congress passed legislation that would streamline bankruptcy procedures. Among other things, small companies with debts totaling less than $2 million that seek protection under a Chapter 11 reorganization would likely see their cases move through the court system faster and at lower cost. Creditors would learn more quickly whether they would get back what they are owed.

Mining Law Reform

The Clinton administration pushed hard for changes in the 1872 Mining Law, noting that it allows miners to gain title to federal land for as little as $2.50 an acre. The Interior Department sought higher fees and tougher environmental requirements for mining companies.

A House-Senate conference to resolve differences between bills passed in 1993 ended in deadlock. The House bill imposed an 8 percent gross royalty on the value of minerals and required miners to take more extensive steps to repair lands they use. The more moderate Senate bill imposed a 2 percent royalty after deducting costs for exploration and development. It allowed miners to continue to purchase land, but at fair-market value.

GATT

A vote on legislation to implement the Uruguay Round of the General Agreement on Tariffs and Trade was put off until a lame-duck session in late November. Earlier action on the global trade agreement was blocked by Sen. Ernest Hollings, D-S.C., and House Republicans.

Procurement Reform

An outgrowth of the president's promise to "reinvent government," this legislation cleared Congress in August. The new law raises the level for simplified agency purchases from $25,000 to $100,000. It also allows the federal government to buy commercially available products. The result should be less paperwork for bidders and government buyers. NB

INTERNATIONAL TRADE

Sailing Through Customs

To avoid red tape on overseas trips, get a merchandise passport —a carnet—for your equipment and product samples.

By Brenda Ordonez

Before you travel abroad for business, you'll need a passport. And while you're at it, you should probably get a passport for any products or equipment you'll be taking along to use or to show as samples.

ILLUSTRATION: MICHAEL ROOK

Lisa Sokal learned all about merchandise passports three years ago when she had to ship computer equipment to and from Holland. Sokal, an administrative assistant at the Washington, D.C., law firm of Pierson, Semmes and Bemis, sent computers and printers to The Hague and back every three weeks for two years while the firm's attorneys were in a lengthy trial.

Sokal, whose only previous "international" experience consisted of shipping documents via courier, saved her firm from having to pay Holland's import tariffs and an 18.5 percent value-added tax on the equipment. What's more, she didn't have to cope with the paperwork and hassles with customs officials that are typically involved in shipping goods overseas.

How did she do it? With the merchandise passport, called an ATA carnet (pronounced kar-nay). The carnet program is administered by the U.S. Council for International Business (USCIB), the nonprofit U.S. affiliate of the International Chamber of Commerce. (The U.S. Chamber of Commerce is a member of the USCIB.) The Admission Temporaire/Temporary Admission (ATA) carnet is an international customs document that eases entry for equipment and sample products into 47 countries in Europe, North America, Asia, and Africa.

Carnets are for temporary export. "A carnet covers items that will be out of the country for no more than one year," says Cynthia Duncan, the council's marketing manager for carnet operations.

The carnet, also an entry document for the products, eliminates time-consuming and costly customs procedures and provides a guarantee that duties and excise taxes will be paid if items on the carnet are not returned to the country of origin within the specified time limits.

Re-entry into the U.S. for the products is easier on a carnet: Paperwork stamped when the products are sent out of another country serves as the entry document when they arrive in the U.S., so they don't have to be registered again.

Duncan emphasizes that selling goods covered by a carnet is technically a violation of the carnet agreement. Knowing that this sometimes happens, however, she advises the seller to protect against any subsequent customs claims by any country by getting an itemized receipt specifying that appropriate duties and taxes were paid.

What merchandise can be covered by a carnet? "Everything imaginable," says Duncan, "from ordinary goods, such as commercial samples and trade-show displays, to extraordinary items like Cessna jets, Paul McCartney's band instruments, and the U.S. equestrian team's gear." Exceptions are food and agricultural products, disposables, and postal items.

The U.S. Customs Service, part of the Treasury Department, also endorses carnets. Ernest Cunningham, program manager for the agency's Office of Inspection and Control, Cargo Enforcement, and Facilitation, says carnets simplify customs procedures for business people returning to the U.S. "It allows them to clear customs themselves without engaging outside help," he says.

USCIB, by appointment of the Treasury Department, has been issuing about 10,000 carnets a year since 1968. As the guaranteeing organization that must pay any customs claims resulting from improper use of a carnet, it is required to hold a refundable security deposit—either a certified check or a surety bond—from the individual being issued a carnet. The deposit is 40 percent of the value of the goods being shipped.

An inexpensive alternative is a surety bond, available from about 200 companies approved by the Treasury Department, or through the council, also a bonding company. The premium for a bond to secure $20,000 in goods, for instance, would be $80; cash security would be $8,000.

You also might want to insure the goods. Roanoke Brokerage Services Inc., of Hunt Valley, Md., a USCIB-authorized carnet-issuing agent, is among insurers offering a special low-cost policy covering items on a carnet against loss or damage. Unlike most policies, the premium is based on the number of countries entered, not a specific period of time, and can be as low as 1 percent of the goods' value.

The basic cost of a carnet is a processing fee ranging from $120 to a maximum of $250, depending on the value of the shipment. For a $20,000 shipment, the fee would be $175.

To obtain a carnet:

■ Get an application from a carnet-issuing office or call the USCIB at 1-800-CARNETS (1-800-227-6387). Your call will be routed automatically to the issuing office nearest you: New York, Los Angeles, Chicago (Schaumburg), San Francisco, Boston, Baltimore (Hunt Valley), Miami, or Houston. A Washington, D.C., office issues carnets electronically, at an additional fee, if you require expedited processing.

■ Fill out the application. List company details and the countries to be visited. Provide a detailed roster of the goods to be covered, including serial numbers, country of origin, and weight.

■ Post security—either cash or bond.

Cynthia Duncan at the USCIB offers free on-site sessions to companies interested in learning more about the ATA carnet. Free brochures also are available. Contact Duncan at the United States Council for International Business, 1212 Avenue of the Americas, New York, N.Y. 10036-1689. Phone (212) 354-4480. ■

Brenda Ordonez is a free-lance writer in Fort Myers, Fla.

Women In Business

Passing the torch—woman to woman.

MANAGING

Mother-Daughter Teamwork

By Rosalind Resnick

For Shana Kayton, joining her mother's company after college was as comfortable as stepping into an old pair of shoes—a size 11 slim, to be exact.

Today, Kayton, 24, and her mother, Cheryl Levine, 49, who wears a size 12, are co-owners of StatShoeEsque, a Davie, Fla., shoe store that specializes in footwear for women with larger-than-average feet. Last year, the company's sales topped $500,000; its annual sales per square foot—the yardstick of retail success—hovers around $500, nearly triple the national average for shoe stores.

Part of the store's success, Levine and Kayton agree, stems from their compatibility and the fact that their tastes are similar. While the two women shop the trade shows together, Levine does most of the buying; Kayton is responsible for the store's day-to-day operations.

"Shana has a very strong personality, and so do I," says Levine, "but we've always been very close."

Says Kayton: "It works because we've made it clear which hats we're going to wear."

While father-son businesses have been around for centuries, mother-daughter companies are coming into their own as more women open their own businesses and seek to pass the torch to the next generation of working women.

For mother-daughter business owners, running a company together offers many advantages—for example, the chance for each woman to work with someone she loves and trusts. But there's also the flexibility to meet a wide range of personal needs, such as the daughter's desire for a part-time schedule to care for her newborn, which another employer might be reluctant to accommodate.

There are some pitfalls, however, says Roy Cammarano, a Dana Point, Calif., management consultant. Mothers and daughters who have not resolved issues of trust and control during the daughters' adolescence, he says, may let some of the same power struggles play out in their businesses. Likewise, mothers who can't resist looking over their daughters' shoulders and daughters who insist on correcting what they perceive as their mothers' "mistakes" are also headed for trouble.

"Where the mother and daughter can have an open, honest, and direct relationship, the business has a much greater chance of prospering," Cammarano says.

One of the highest-profile mother-daughter management teams can be found at Georgette Klinger, Inc., a New York manufacturer of men's and women's skin-care products that rings up annual sales of more than $20 million. Georgette Klinger, who founded the company in 1940 and is now in her 70s, serves as chairman of the board; her daughter, Kathryn Klinger, 43, is president.

Two years after joining the company straight out of college, Kathryn moved to Beverly Hills to run the Georgette Klinger salon there. Mother and daughter see each other only several times a year but keep in daily contact by phone. "I wish we could be nearer, but that's impossible," Georgette says. Kathryn notes that she and her mother have "very different" personalities. "I'm sure that [working together] would be a lot more difficult if we were in the same building every day."

But even successful mother-daughter alliances sometimes feel strains. Kathryn Klinger, for example, says it's often hard for her and her mother to separate their business and their personal lives.

Women who run mother-daughter businesses say the key to making them work is for each partner to give the other some breathing space and to treat each other with mutual respect.

Running a business together is certainly not for all mothers and daughters, says Cheryl Levine of StatShoeEsque, "but it's wonderful when it works."

Rosalind Resnick is a free-lance writer in Hollywood, Fla.

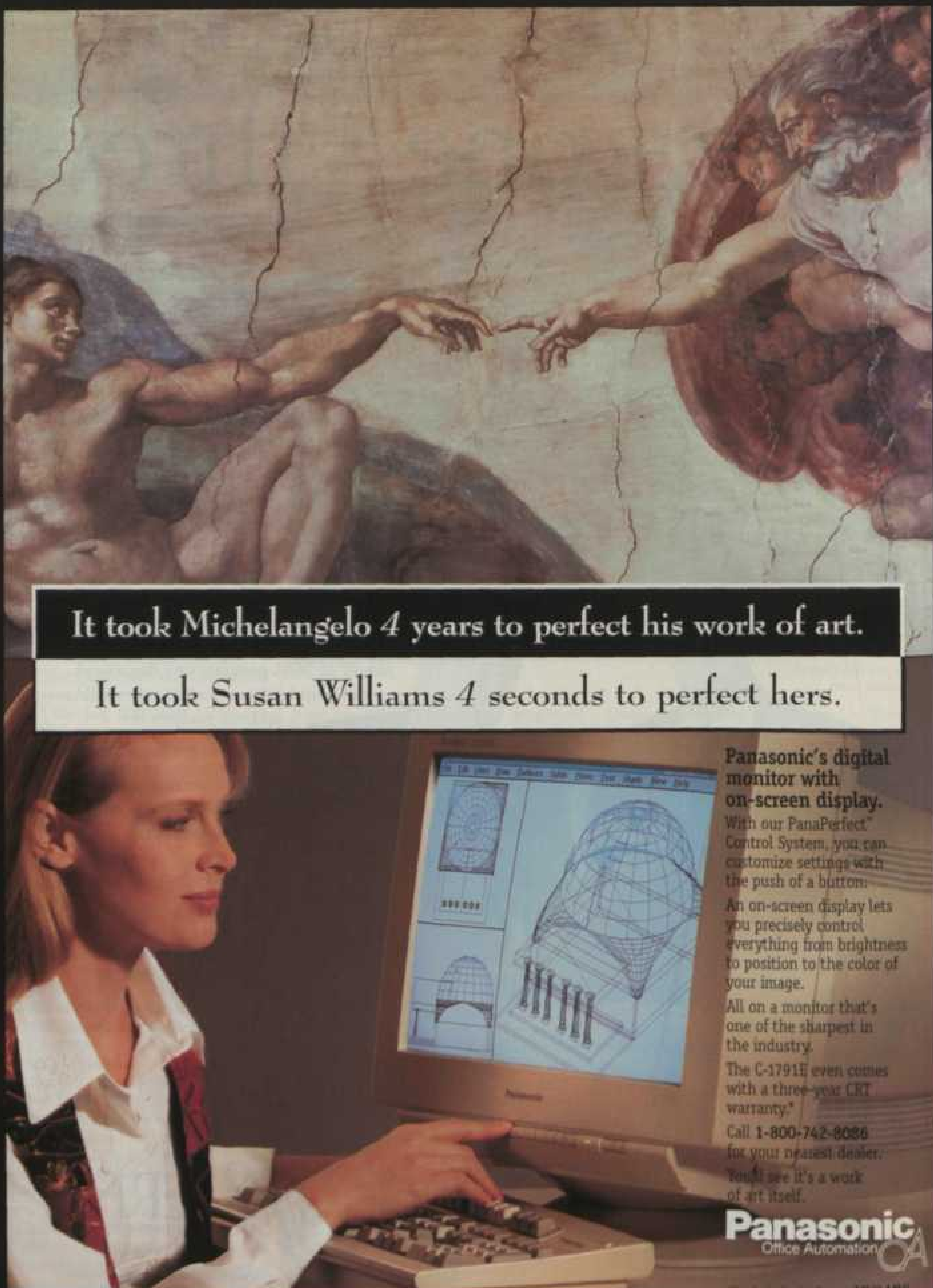
PHOTO: GREG TOUCHTON

Shoe-store owners *Cheryl Levine, left, and her daughter, Shana Kayton.*

Can You Get Along?

Thinking about starting a business with your mother or daughter? Here's a checklist of questions to consider and discuss:

- How well do my mother/daughter and I get along personally?
- Have we resolved any conflicts over trust and control?
- Are we willing to let each other make mistakes?
- Are we comfortable dividing business tasks and responsibilities?
- Will we be co-owners, or will my mother/daughter work for me?



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Casting A Wider Employment Net

By diversifying its work force, a company can tap into sources of seasoned talent and broaden its customer base.

By Laura M. Litvan

Struggling during the depths of the recession about four years ago, managers at Alpine Banks of Colorado Inc. began a quest for much-needed depositors.

For some time, the Glenwood Springs, Colo., bank's customer base had been shrinking. Most of Alpine's 13 branches are nestled in the Roaring Fork Valley, a region near Aspen that was hit hard by job losses beginning in the late 1980s. Among other things, two large employers—a mining company and an oil conglomerate—had shuttered their local operations, forcing many area residents to move away.

The bank had also begun to face tougher competition; national bank corporations started buying other local banks after Colorado began allowing out-of-state ownership in 1988.

Despite the gloomy outlook, managers identified a bright spot. Thousands of Latinos had arrived in the region in the preceding decade, many of them lured to jobs in Aspen's ski resorts. Alpine Banks, they decided, would distinguish itself from competitors by bridging the communication gap with these new residents, many of whom speak little English.

The bank decided to recruit bilingual employees. Among other actions, the bank ran help-wanted ads printed in Spanish. Latino respondents who were hired then referred names of other Latinos as potential employees. The company ultimately hired 25 bilingual workers, most of them Latinos, and placed at least one of them in each of its bank branches in positions ranging from loan officer to bank teller to receptionist.

The strategy helped the 200-employee bank attract hundreds of new depositors, says J. Robert Young, Alpine's president and chairman of the board.

Janice Caro, a bilingual customer-service representative stationed in Alpine's Carbondale branch, says communication is a key to helping the bank get further business with these customers. Once Latino customers open savings and checking accounts, she talks with them in detail about more-complex banking matters, such as applications for credit cards or small-business loans. "A lot of our customers speak English, and they do understand it," Caro says, "but their comfort level is in Spanish."

Like Alpine, some small firms are broadening their recruiting efforts to attract a more diverse pool of talent, for reasons that extend well beyond the decades-old concept of affirmative action.

PHOTO: CRAIG CHESLEY

Maya Woodworks owner *Samuel G. De la Rosa, left, of El Jebel, Colo., does business with Alpine Banks with the help of bilingual customer-service representatives such as Janice Caro, shown with Glen Jammaron, president of the bank's Basalt branch.*

For many such firms, as for Alpine, the reasons lie in the changing demographics of their customer bases. Other companies, facing local labor shortages, are expanding their applicant searches to sources of labor they may have previously overlooked. In addition, the rising numbers of women and minorities experienced in professional fields appear to be making targeted recruiting worth the effort.

Of course, much attention has been focused in recent years on the need for companies to embrace diversity. A key development was a landmark 1987 study, Workforce 2000, which said that while white non-Hispanic males made up 47 percent of the labor force in 1985, they would make up only 15 percent of new work-force entrants between 1985 and 2000.

Such a shift, coupled with a shrinking labor pool, would challenge companies to attract more women, ethnic minorities, retirees, and other "nontraditional" personnel, said the study, issued by the Hudson Institute, an Indianapolis public-policy research organization.

In a November 1993 study, the U.S. Bureau of Labor Statistics found that the Hudson Institute's projections were being borne out. The study made similar projections extending to 2005, forecasting that by then the overall proportion of white non-Hispanic workers in the labor force would decline, while workers of other ethnic backgrounds would either hold their own or increase. The percentage of women in the labor pool would also edge upward, the study said. (See the chart on Page 50.)

Although much has been said about the changing work force, many recruitment and diversity consultants say small businesses appear to be moving more slowly than larger companies in rethinking their recruiting plans. The help-wanted ad run in a local daily newspaper remains the mainstay of recruiting efforts, they say, with many small employers overlooking some simple strategies that could help them cast a wider net for applicants.

Nicholas Cianciola, a minority recruiter, says because many smaller com-

panies lack large personnel staffs, they shy away from putting additional effort into recruiting. If they do make a concerted effort to hire for diversity, it is more likely to be in administrative positions or other lower-level jobs, he adds.

"When dollars and cents hit the pavement, smaller companies tend to focus on entry-level jobs, if anything," says Cianciola, a partner with Weston Associates, a Stamford, Conn., recruitment firm that emphasizes minority hiring.

Wesley Poriotis, a New York recruiting consultant, says some smaller companies simply resist developing broader recruiting approaches. Because targeted hiring of women and minorities stems from the civil-rights laws of the 1960s, he says, some employers grudgingly view such hiring as something mandated by the government or done to avoid a discrimination suit, rather than as a means of building a more effective work force.

"The legacy of affirmative action has a sourness in American business that is hard to overcome," says Poriotis, chief executive officer of Wesley Brown and Bartle, which has specialized in minority recruiting for over two decades.

But some small companies that have eagerly made changes have found within their own communities a number of helpful resources, ranging from government agencies to minority professional associations to university placement offices. (For a list of tips, see Page 51.)

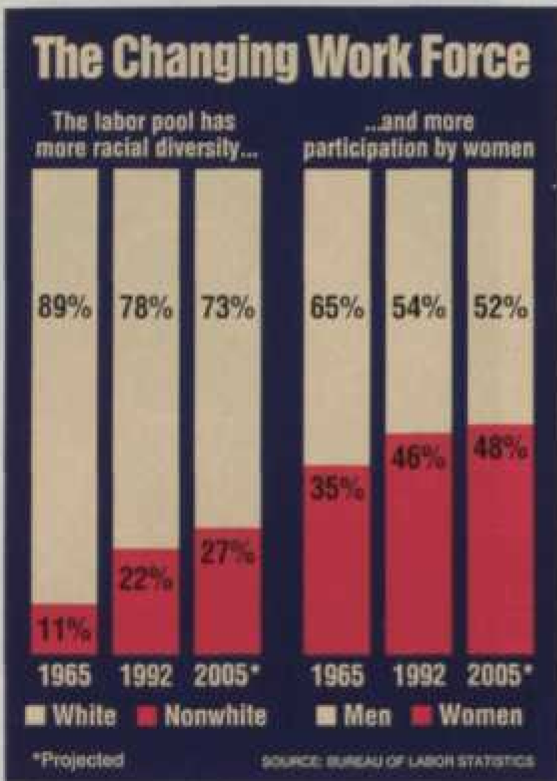
Perhaps most notably, several small employers who recently discussed their strategies with *Nation's Business* said that after taking some initial steps to broaden their recruiting efforts, they called upon new hires and other employees to help refer other qualified "nontraditional" workers. For these employers, diversity helped fuel more diversity.

At GB Tech Inc., a Houston-based information-systems company, employee referrals formed an important part of a plan several years ago to attract retired high-technology workers. The company wanted to develop a list of highly skilled retirees who would lend their know-how through an informal arrangement: Most of them would serve initially as consultants and later might become permanent workers if the company grew.

The company needed help in writing bid proposals for subcontracts with the National Aeronautics and Space Administration, and GB Tech managers believed experienced retirees could provide technical expertise to complete the complex paperwork. Also, experienced retirees who used to work for large aerospace corporations could help enhance the image of GB Tech, a relative newcomer, says Gale Burkett, the company's chairman and chief executive officer.

"We were concerned about whether we would be accepted because we were still a fairly new company," Burkett says.

The company began advertising for candidates in several high-tech disciplines. A few respondents who were brought on board were asked for names of other skilled older workers who might also be willing to help GB Tech.



Ultimately, the company developed a résumé data base of 80 retirees who were ready to work for the company. Ten retired workers were eventually hired as full-time employees. Several of them are still with the company; one is in charge of a new product line that will expand the company into more private-sector work.

The company's revenues have grown from $660,000 in 1990—before the recruiting started—to $7.8 million in 1993. Employment has also skyrocketed—from 14 workers in 1990 to 415 today. Burkett attributes much of that growth to the efforts and advice of the retirees.

While GB Tech and Alpine Banks have targeted their recruiting with some success, diversifying what might be a homogeneous work force is, of course, no cinch. If, for example, a company makes a concerted effort to attract a more diverse selection of applicants, that effort could backfire if the company doesn't consider some of the needs of these new workers, management consultants warn.

Rethinking other personnel practices—ranging from worker training to anti-discrimination policies—is essential before broadening recruitment efforts, says Joan Steinau Lester, executive director of the Equity Institute, an Emeryville, Calif., consulting firm. "Recruitment has to be seen as just part of a larger picture," Lester says.

For example, Monte Paddleford says his Lander, Wyo., company, Eagle Bronze Inc., is still smarting from painful mistakes made three years ago when it began earnestly recruiting Native Americans for entry-level metal-casting jobs without providing sufficient job training.

Located in an isolated rural area, the 58-employee metal-casting company faces a constant shortage of labor, and it initially turned to these workers during a period of heavy orders from the artists who purchase its castings, says Paddleford, who is president of the company. To find applicants, the company had help from a branch office of the Wyoming Department of Employment, which had names of job hunters from the nearby Wind River Indian Reservation.

But after bringing some workers on board, Paddleford says, he and other managers were unprepared for the lack of basic skills and understanding of employer expectations—like the importance of punctuality—among some of the workers. Many of the workers simply had never held a full-time job before, he says.

Because managers needed orders to be filled quickly, the company also pushed workers to grasp the basics of their metal-casting jobs too quickly, Paddleford says. As a result, quality dropped on some orders, turnover increased, and 14 of 20 Native American recruits ultimately left the company.

"For a while, we brought in nothing but warm bodies," Paddleford says. "It was clearly a mistake we were making."

Because of that experience, the company is reconsidering how it works with new employees. A new training manual includes a checklist of skills required in each casting job, with compensation tied to mastery of various levels of skills. Also, the local employment office is offering to help potential new hires adjust to the work force.

"We have had to bite the bullet and realize we have to do more coaching on job skills we might have believed they would come in the door with," Paddleford says.

The company is also working to address other needs of the Native American workers. Next year, when the company will likely try to attract a half-dozen additional workers from the reservation, it might offer to transport them to and from work in a van, because some job seekers from the reservation do not own

cars, he said. Also, the company wants to focus more on moving Native American workers up the ranks. One worker from the reservation has shown leadership potential and is being trained for a supervisory role.

Another potential challenge for smaller employers is that, when trying to attract diverse talent for middle- and upper-management jobs, they can face stiff competition from larger companies.For instance, many Fortune 500 companies devote hefty financial resources to recruitment efforts designed to attract more ethnic minorities, and small companies can sometimes find the competition daunting, says Sam Hall, director of career services at Howard University, a historically black college in Washington, D.C.

At Howard, for example, about 400 companies—most of them corporations—are recruiting through the placement office. Ford Motor Co. and Mobil Corp. have each assigned senior executives to visit the campus regularly to emphasize their commitment to their recruiting from Howard, Hall says.

But he adds that recruiting offices are willing to work with small businesses that have limited resources. Hall says staffers from his office have visited small companies interested in recruiting from Howard and have informed students about employment opportunities at these firms.

He and other university placement officers think small companies can offer excellent advancement opportunities to minority students. "We encourage our students to look very closely at small companies because that's where the growth is going to be in coming years," Hall says.

The best first step for businesses that want to improve their recruiting is to begin planning ahead, says Poriotis, the New York minority recruiter. Companies that delay recruiting until a job opens up typically stumble because time constraints force them to rely on their traditional hiring networks.

He thinks smaller companies wanting to diversify their job-applicant pools can emulate what he does for his clients: He identifies the job skills needed for various positions in a client company and introduces the company to skilled minority professionals who might later be applicants. When a key job does open up, the company already is aware of some minority candidates to take into consideration.

Smaller firms, which might not be able to afford recruiters, can still cultivate women and minority professionals who would make ideal future job applicants, Poriotis adds. "If you have key positions in mind that will open up in six months or in a year, put a little time into it now."

At Alpine Banks, where playing catch-up with the customer base was really the driving force of their recruiting efforts, J. Robert Young says he is pleased that his company recognized the importance of hiring for diversity early enough to enjoy a competitive advantage.

Other banks in the valley have since followed in Alpine's steps, hiring bilingual workers for their branches. But Alpine Banks is the only financial institution that airs radio ads in Spanish that appeal directly to local Latinos for their business, Young says. The ads feature the company's new workers.

With the Latino population in the Roaring Fork Valley expected to continue rising, Young says he is glad his company is developing relationships with local Latinos not only as customers but also as workers. A local labor shortage is beginning to take hold, Young says, so continuing to bring on board the best job candidates from that portion of the community will be crucial as the bank continues to grow.

"It's certainly better for us," Young says, "to be on the leading edge than on the back end on these issues." NB

To order a reprint of this story, see Page 76. For a fax copy, see Page 62.

Building A More Diversified Staff

There are many ways to begin developing a more diverse pool of job applicants for your firm. Here are suggestions from management consultants and small-business people experienced in this area:

Run help-wanted ads in a variety of publications in your region, not just the local daily newspaper. Also run ads in alternative publications that are widely read by minorities, older workers, women, or other populations you would like to draw upon when searching for new talent.

Make sure your broadened recruitment efforts are geared to upper-level positions and not just entry-level jobs. Increasingly, female and minority job seekers who perceive a "glass ceiling" that would informally limit their advancement at a company simply look elsewhere, recruitment experts say.

When hiring for middle- and upper-level jobs, seek out the services of minority professional groups. Many groups offer services to help them cull new employees from their membership rolls. For example, the 3,000-member National Black MBA Association, based in Chicago, maintains a résumé data base of potential job applicants and hosts an annual career fair open to companies of any size. Antoinette Malveaux, the association's president, suggests employers begin first with local chapters of professional groups.

Consider the needs of a more diverse work force at your company before you broaden your recruiting. Consider any systemic barriers to advancement, special training, transportation, or other areas that should be addressed.

Consider establishing an employee referral program. Involve your present workers in your efforts to attract more diversity. Paying workers a small bounty for referring a new hire is one way to get workers interested.

Get involved with local interest groups to help broaden your network of contacts. For example, Lloyd Lawan, chairman of the board of Lawan and Associates Inc., a Denver office-equipment company, says his involvement with groups that promote the needs of working women has been useful in creating a recruiting network that he can draw upon. His connections with local women's development centers and a state working women's task force have helped him recruit skilled saleswomen, he says.

Ask recruitment offices of local universities about the services they provide. Job fairs and on-campus recruitment opportunities can help your company attract new talent. If your financial or personnel resources preclude frequent trips to campus, talk with recruiters to see whether they will work with you in other ways to inform students about your company.

When hiring for entry-level jobs, make use of government resources. Among those you could find particularly helpful is the regional job-service branch of your state's unemployment department; it can link your company with some job seekers and even help with initial screening. Also, local Private Industry Councils, which are outgrowths of the federal Job Training Partnership Act, have experts on staff who work to address the training needs of workers in your region.

Small Business Computing

Hard copy when you travel; powered-up accounting software; a new on-line "magazine."

By Albert G. Holzinger and Ripley Hotch

HARDWARE

A Portable With Its Own Printer

Portable computers, no matter how powerful and feature-packed, share a weakness: Users cannot conveniently produce paper copies of letters, spreadsheets, incoming faxes, or other work until returning to the office.

CANON NoteJet IIc

An exception to this rule is the **NoteJet IIC** from Canon Computer Systems Inc., of Costa Mesa, Calif. This unique portable, which we have been using for several months, features an integrated 360-by-360-dpi (dots per inch) ink-jet printer.

The PC itself is an 80486-class machine that runs at 50 megahertz (Mhz). Its standard features include 4 megabytes (MB) of random-access memory (RAM), expandable to 12MB; a 130MB or 160MB hard drive; a built-in 3.5-inch floppy-disk drive; a good but not outstanding 10.3-inch color display; a great keyboard and pencil-eraser-style pointer; and a full complement of expansion slots and ports.

Battery life usually exceeds three hours but can be much shorter when printing. The printer, based on Canon's Bubble Jet design, has a 10-sheet capacity and is easy to operate.

AST Advantage PC

The machine is a bit awkward and, at nearly 10 pounds, a bit heavy. And the on-off switch is inconveniently located in the back. Nonetheless, if you need to produce documents on demand, the NoteJet has no peer.

The base price of the Canon NoteJet IIC is $3,399.

A Desktop That Does It All

Also combining multiple functions are the new **Advantage PCs** by AST Research Inc., of Irvine, Calif. A multimedia computer, a fax machine, and a voice-messaging system are included in a single compact case.

The Advantage line was engineered with home users in mind. The various models are easy to operate—even for computer novices. Yet the mid- and upper-level PCs in the line are powerful enough to meet the needs of most small businesses.

Take the midrange Adventure 8066d, for example. This machine is powered by a fast 80486 processor that runs at 66Mhz. It comes with 8MB of RAM (expandable to 128MB), a 420MB hard drive, and a 3.5-inch floppy drive. A video accelerator allows Windows programs to run quickly.

Standard multimedia features include a double-speed drive for compact disks with read-only memory (CD-ROMs), a high-quality sound card, speakers, a microphone, and a 14.4 kilobits per second (kbps) fax/modem. A slew of worthwhile software is also included.

The retail price is $1,799.

AST adds great value to this and other Advantage PCs in the form of the AST Works user interface. This facile software allows users to set up their computers as a messaging system that receives and prints incoming faxes automatically. The messaging system also includes telephone caller ID and up to 99 private, personalized voice mailboxes. The line has a three-year warranty.

For information on other Advantage models, call AST at 1-800-876-4278.

ACCOUNTING

New Programs Are Powerful, Flexible, And Manageable

New versions of **Intuit QuickBooks** and **Peachtree Accounting for Windows** solidify the products' leadership in the small-business accounting software market.

Release 3 of Peachtree Accounting for Windows is more than an accounting program. It also provides business owners with several tools for enhancing productivity. Peachtree, based in Norcross, Ga., recognizes that many entrepreneurs do their own books or at least monitor their financial situations daily. To help these hands-on business people, Release 3 provides a to-do list and a convenient means of tracking business contacts. The software also alerts the user automatically upon a triggering event, such as when inventory falls below a specified level.

Peachtree now provides 60 sample account charts, and almost any business should be able to find one that is compatible with its current books. The program still includes payroll and inventory features, and it comes ready to run on a network of computers.

Peachtree seems to understand that easy access to a wide variety of reports is crucial to most businesses, and the company has succeeded in improving report-

ing features—an area in which it had clearly trailed QuickBooks.

We continue to be impressed with the CD-ROM version of Peachtree. In addition to the accounting software, it includes a shelf of business books, software to access the company via CompuServe, tutorials, a fax program, and some other goodies.

Peachtree has done a good job of emulating the legendary ease-of-use features that Intuit has long provided in QuickBooks. In the new releases of both Intuit and Peachtree, a few keystrokes will usually result in a completely filled-in check, statement, or whatever. This not only saves time but also increases record-keeping accuracy.


Peachtree

Other significant improvements abound in Version 3 of QuickBooks by Intuit, based in Menlo Park, Calif. (Microsoft recently acquired the company, subject to government approval.) The most noteworthy include an inventory model, an audit trail, and an ability to customize forms.

The program also features dozens of small advances that build on Intuit's dedication to ease of use. For example, sales tax is now calculated more easily.

The QuickBooks inventory system is suited to small businesses that need to track current inventory, partial shipments, unexpected discounts, and so on. Business owners who don't need to track inventory can turn off the module.

Another new QuickBooks feature, the audit trail, is as clear as possible for this arcane accounting process. It's automatic, so there is no need for reversing entries when deleting transactions. And the audit trail, too, can be disabled by those who don't need to bother with it.

QuickBooks is not a network product, although it may well become one in the next release. Besides networking capability, we'd like to see QuickBooks include an integrated payroll module.

The argument against doing this is that many small businesses either don't have a formal payroll or, if they do, contract out the processing.

QuickBooks retails for about $99 for new users and $60 for those upgrading from an earlier version. Peachtree costs about $169.

Both products are well worth their respective prices.

And For Personal Finance . . .

For readers who use personal-finance as well as small-business accounting programs, Intuit recently upgraded its line of Quicken products for all of the major

Quicken/CD-ROM

desktop operating systems: DOS, Windows, and Macintosh.

The new releases maintain Intuit's long tradition of adding features requested by its customers (there are more than 6 million users now) to make its products ever easier to use. The most notable new features are Snapshots, which provides users with an instantaneous assessment of their financial status, and a wide range of financial-planning tools.

Deluxe versions of the Windows products include a home-inventory program, a tax-planning guide, on-line tools for tracking stock and other investment prices, and more.

Both the regular and the deluxe Windows versions are available on floppy disks or a CD-ROM. (The wealth of expert financial advice and mutual-fund information on the CD-ROM proves the worth of this new medium.) Retail prices are less than $40 for the basic versions and $60 for the deluxe products. ■

ON-LINE SERVICES

A New "Magazine" Format For CompuServe Users

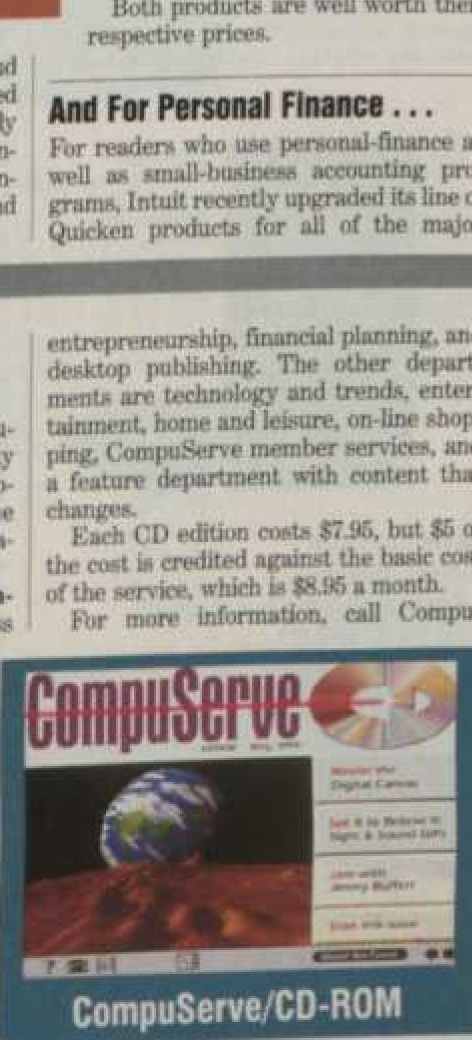
About one-third of the 2 million CompuServe users have a computer that can play CD-ROMs. If you are one of those subscribers, you may want to receive the on-line information service's new "magazine" in that digital format.

Like the service as a whole, the **Compu-Serve CD** provides a mix of business and personal news, services, and entertainment. The CD, published every other month until next spring and monthly thereafter, is a supplement to content that members can access by dialing in via modem. This supplemental material is heavy on the content best delivered on CDs, with their tremendous storage capacity for sound, video, animation, and voluminous public-domain software.

Each CD is divided into seven departments. One is personal enterprise, which deals with subjects such as small business, working at home, entrepreneurship, financial planning, and desktop publishing. The other departments are technology and trends, entertainment, home and leisure, on-line shopping, CompuServe member services, and a feature department with content that changes.

Each CD edition costs $7.95, but $5 of the cost is credited against the basic cost of the service, which is $8.95 a month.

For more information, call CompuServe, based in Columbus, Ohio, at 1-800-848-8199.



CompuServe/CD-ROM

Prodigy Helps With The Mail

It is now common for business people to send and receive electronic mail via an on-line information service, and Prodigy, of White Plains, N.Y., now sells software that is designed to make those tasks easier and less costly.

The company's nifty **E-Mail Connection** software allows you to use word processors or capable built-in text editors to compose messages before connecting to the service. When the connection is established, outgoing mail can be sent not only to Prodigy's 2 million users but also to subscribers of most other E-mail systems and networks, including the Internet, and to fax machines. The E-Mail Connection, which costs $14.95, is also rich with useful tools, such as address books and folders for organizing incoming messages. For details, call Prodigy at 1-800-PRODIGY, or 1-800-776-3449. NB

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Here's how one successful businessperson described the benefits of BizPlan Builder: *"It helped structure my thinking even though I've written a number of business plans. I probably saved 40 hours, if not more, and it really helped me get started. That's always been the hardest part before. It only took us about four months to get $3,000,000 using BizPlanBuilder. And my CPA really liked it."* This system doesn't let you make any mistakes. And it puts you on the road to success.

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This acclaimed video production details the ins and outs of building a winning business plan, developing the management foundation, and obtaining the cash you need to make your business successful. This complete course helps you understand the advantages and disadvantages of such critical functions as working capital, debt to equity, and other helpful ratios.

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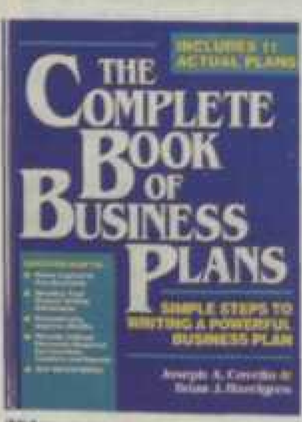

Successful entrepreneurs call it "A must-have for every business" and "Definitely an entrepreneur's best friend!"

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At last! Simple, straightforward advice and models for helping you write your own business plan. Learn how to obtain a business loan or venture capital...introduce a new product...expand a current business or line...increase market share...buy or sell an existing business...and more!

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A Message From The Editor Of *Nation's Business*

In addition to providing immediately useful information to readers, we also make a special effort in our editorial content to alert them to additional resources that will help them improve productivity and profit. These resources include the type of products and programs described on these pages.

We have expanded this listing substantially in response to the dramatic increase in the demand for help in meeting the need to improve managerial skills in the face of the many new challenges that businesses face today.

You will find that these low-cost, high-yield, performance-improving programs meet that need in all respects. They will give you expert, easy-to-follow guidance on all the critical steps involved in starting and growing a business: planning, marketing, communications, developing the work force that you need, using technology, and meeting the many other challenges facing today's managers.

Each of these products meet the same rigorous standards we established for *Nation's Business* magazine. Our staff has spent months—in conjunction with outside consultants—reviewing, rejecting, and recommending products. Those that meet our expectations appear on these pages.

I urge you to examine these programs, courses, and tutorials. They can spark ideas, techniques, and even sales. These products can make a major difference! And every one comes with our 100% satisfaction-guaranteed pledge: If you don't get what you want from it, you can return it for a no-questions-asked refund or cancellation of your credit card charges. You can't miss with *Nation's Business*!

Robert T. Gray
Editor

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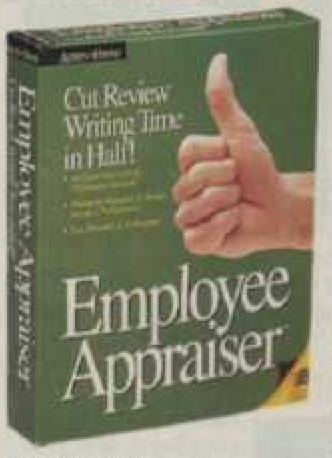

This computer-based program helps managers and supervisors avoid many of the most common performance appraisal mistakes. *Employee Appraiser* gives you access to hundreds of professionally written phrases and paragraphs that can be personalized to fit your people and specific situations. Developed by labor law experts, the glossary checks your documents for inappropriate language and offers advice on how to correct it. The result is better employee evaluations… delivered in half the time.

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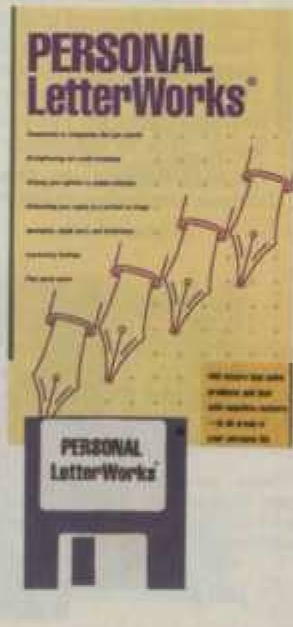

If you've ever struggled to write a sympathy note to a colleague or friend…if you're tired of dealing with difficult businesses and individuals…if you've ever wondered how you were going to unravel a payment dispute with an uncaring banker…or how to say "I appreciate you" to a subordinate or "thank you" to a boss…then the all-new PERSONAL LetterWorks is the product you've been waiting for. It shows you how to deal with everything from touchy, feelings-oriented issues to hard-nosed "this-is-the-way-it's-going-to-be" situations…and everything inbetween. A sensational collection for your business and personal life.

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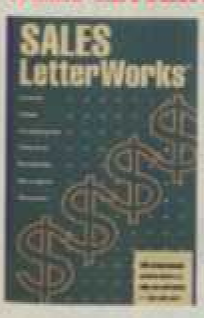

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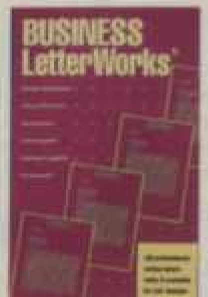

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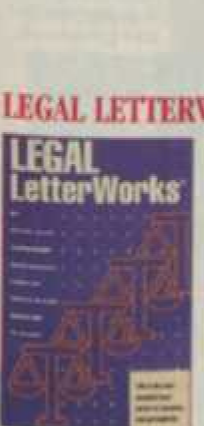

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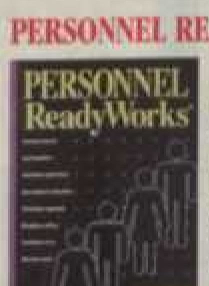

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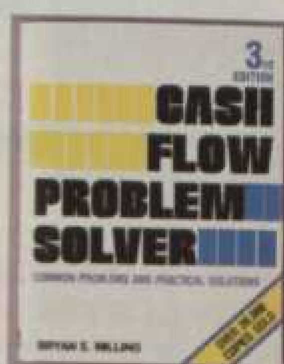

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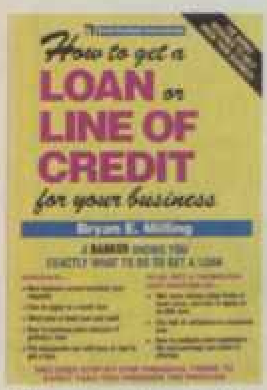

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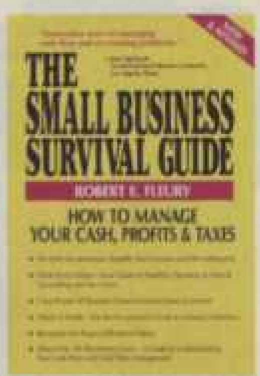

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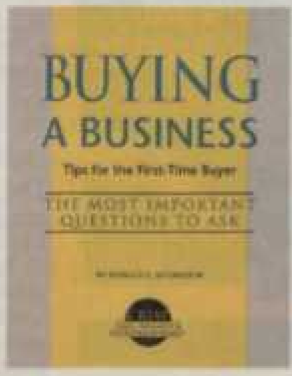

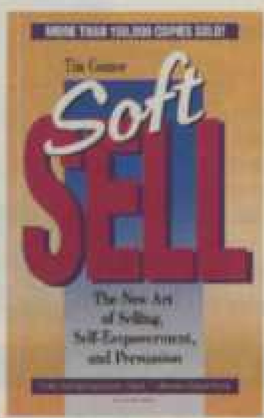

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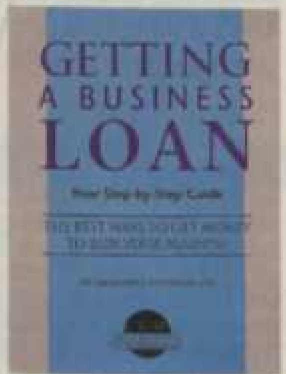

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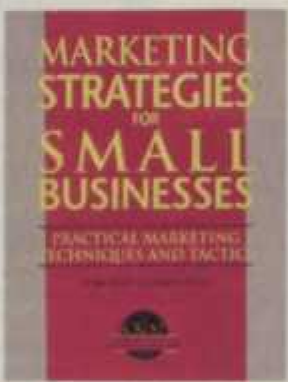

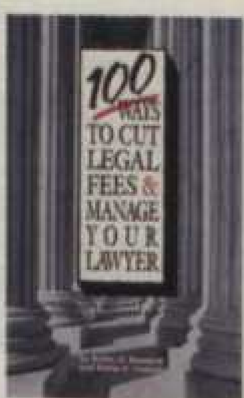

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TRANSPORTATION

Tracking All Trucks

Many companies are outfitting their fleets with advanced mobile communications technology.

By Julie Candler

Chuck Farmer, a construction estimator, walked out of his Houston home one morning last year and discovered his company pickup truck had been stolen. The police got on the case—and so did Farmer's company. DU-WEST Foundation Repair, in Pasadena, turned to a land-based radio tracking system that pinpoints the exact location of all 30 of the company's trucks, each of which emits a radio signal at all times.

A company dispatcher screened an area map on a computer and within 10 seconds determined the truck's location, which turned out to be a "chop shop," where vehicles are illegally cut up for salable parts. Farmer's truck and 10 other vehicles were recovered, and police arrested seven people accused of being members of a car-theft ring.

PHOTO: EDWARD B. SUTTON

Walgreen driver *Steve Moyer uses a cellular phone, a bar-code scanner, and a printer.*

For DU-WEST, the incident was yet another example of how its mobile-communications system saves money and increases productivity. "Getting back the stolen truck, having better communication with drivers, and keeping better track of employees' hours more than pays for the system," says Jim Dutton, the company's general manager.

DU-WEST's system was devised by AirTouch Communications, in Walnut Creek, Calif. AirTouch, an offshoot of Pacific Telesis, is one of many companies offering a growing array of satellite, radio, and cellular communications services to increasingly receptive small businesses that use fleets of vehicles to move goods or to call on customers.

Mobile communications allows the Walgreen Co., for example, to keep track of its drivers' mileage, delivery stops, and payroll data. Galaxy Cablevision's technicians no longer have to flood their home office, in Sikeston, Mo., with calls throughout the day to get their next assignments. MidAmerica Dairymen, Inc., based in Springfield, Mo., can reach its drivers throughout the country and direct them to shipments to fill their otherwise empty trailers for the ride home.

"Use of mobile communications has exploded in the last two to three years, but it's nothing in comparison to what's going to happen," says William Bane, vice president of Mercer Management Consulting, a management and strategy consulting firm in New York City. In the next few years, he says, the Federal Communications Commission's awarding of more radio frequencies for mobile communications devices will increase competition and drive down prices.

The increasing use of mobile communications for companies with truck fleets was spurred by deregulation, according to Doug Anderson, director of technical services for the American Trucking Associations, based in Alexandria, Va. Deregulation created a more competitive market, he says, requiring carriers to be more responsive to consumer demands for just-in-time deliveries and fast service calls.

Most activity within the mobile-communications business appears to involve

ever-improving cellular systems. They are progressing from relying on analog data, which replicates the human voice and other sounds, to digital data, which reduces all communications to a language that computers can use.

Digital data, considered the communications language of the future, is faster, more versatile, more accurate, and more dependable than analog data, and it is less susceptible to eavesdropping.

One of the more advanced cellular systems in use today was developed specifically for truckers and by truckers, and it operates on a national network formed through a special arrangement with U.S. and Canadian cellular carriers.

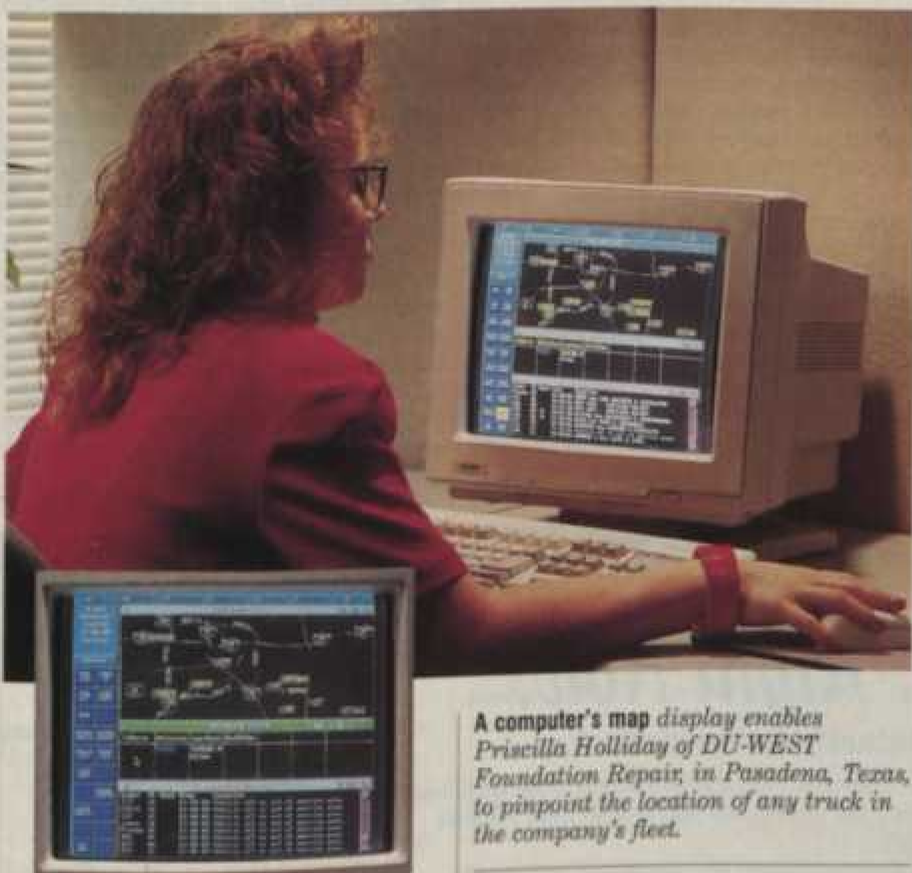
The system was created by Dallas-based HighwayMaster, and at its heart in each truck is a cellular telephone connected to software. The phone enables the computer in the truck to communicate with the main computer in the central office of the company operating the vehicle. Using an on-screen map, a dispatcher can call up the location of any of its trucks in a given region and determine its load status and estimated time of arrival.

HighwayMaster says its system provides seamless communication for both voice and data, meaning no delays when trucks move from one cellular-phone region to another. The system "works everywhere, on every cellular system," says Bill Saunders, president and chief operating officer of the three-year-old company.

A dispatcher can send written instructions to a mobile data terminal in the vehicle or talk with a driver almost anywhere the truck travels. The system's voice-recognition technology enables the driver to place a call without taking his eyes from the road or his hands from the wheel.

The system's costs per truck are $1,795 for installation of the equipment and $60 to $80 a month to operate it.

"We tried the HighwayMaster system on five test units," says Dave Samford, director of sales and marketing for the transportation division of Mid-America Dairymen. "Now we have over 100 trucks installed and will have the rest soon."



A computer's map *display enables Priscilla Holliday of DU-WEST Foundation Repair, in Pasadena, Texas, to pinpoint the location of any truck in the company's fleet.*

Until HighwayMaster was installed, Samford explains, drivers for the big dairy cooperative—which delivers products nationwide and also does "for-hire" work—had to call in every morning to report their location, and the company was getting many calls from customers wanting to know where the drivers were.

"Now they don't have to pull off the road and go to truck stops to phone us. We know where they are," Samford says. In Massachusetts recently, he adds, "one of our team drivers had no return shipment immediately available, so we dispatched [the driver] to pick up a load 100 miles away. Ten minutes later, a customer called in with a shipment available at their Massachusetts location. We reached the driver and saved the cost of 100 deadhead miles."

The 111 delivery trucks of Walgreen, of Deerfield, Ill., are outfitted with a version of Ameritech's wireless data service; each truck has a bar-code scanner and a printer instead of a keyboard or a screen, and it also has a cellular phone.

The system's primary use, says Tom Stedman, director of corporate transportation at Walgreen, is through the scanner, attached to a computer installed between the driver's and passenger's seats in the truck and linked to the home office via cellular phone. It collects payroll information on drivers delivering to 2,000 stores in 34 states.

"It's a total paperless system," says Stedman. "We can call the truck any time and extract information. If we want to talk to the driver, we send him a message. He must pull over and put the gearshift in neutral before he can call us. We don't want the driver trying to shift with a telephone to his ear."

The system costs about $5,000 per vehicle. Stedman says drivers now spend less time making deliveries, their runs are designed more efficiently, and they communicate better with the stores. Although he has no hard data on how the system has affected operations, he believes it has made the firm more competitive.

United Parcel Service, based in Atlanta, blends cellular and computer technology in an electronic clipboard. Every time the driver puts the clipboard in a slot in the truck, UPS receives data through a cellular link.

"MaxiTrac is the company's PC-based package tracking software," says spokesman Pat Steffen. "Small to medium-sized shippers with stand-alone PCs can put in their own software and access our network to track delivery of their own UPS packages."

Many companies' fleets are using two-way mobile satellite systems that transmit—via satellites in low orbits—messages to their drivers and that track vehicles' positions constantly. The satellite system's advantage is that it covers the entire continental United States. The disadvantage is that, unlike cellular systems, the system transmits only data, not voice.

Missouri's Galaxy Cablevision, for example, uses satellite technology at its Midwest regional service center, which takes orders from cable TV subscribers in five states. "Before we got our new system," says Ward Webb, vice president of Galaxy, "when a technician in Texas completed a job, he had to run to a pay phone to get his next job. We had 23 people checking in every morning to get their day's work. We had three dispatchers giving them their assignments."

Now, Galaxy uses an OmniTRACS system, manufactured by QUALCOMM,

Inc. of San Diego. The system provides automatic position reporting by satellite for 15 of Galaxy's service trucks. Each Galaxy driver has a keyboard/display unit for sending and receiving messages and can notify the office immediately when a job is finished.

Webb says the system costs about $4,000 per truck and $70 to $80 a month for transmission fees. "But it increases productivity by letting us plan our routes more efficiently and take better care of our customers. We think more customers will be the result," he adds.

Roberts Express of Akron, Ohio, with 1,400 vehicles nationwide, also uses OmniTRACS to track shipments. Instead of having drivers stop every few hours to call in, the company uses a system that pinpoints each vehicle's location.

"If our tracking system indicates a vehicle is behind schedule, we can send a message to the customer with the estimated time of arrival," says Joe Greulich, director of management information services. "We can let customers know where their freight is, and we can be more productive internally because we aren't adding as many dispatchers/service agents."

Another satellite user, CRST Inc., a truckload carrier in Cedar Rapids, Iowa, communicates with its drivers through Rockwell International's mobile data terminal screen. The home office's messages to drivers appear on the screen, and drivers can send messages of up to 44,000 characters back to their base.

> "Use of mobile communications has exploded in the last two to three years, but it's nothing in comparison to what's going to happen."
>
> —William Bane, Mercer Management Consulting

Some mobile-communication systems are neither cellular nor satellite-based. Using wireless data communications, hand-held portable computers, and bar-code scanners, many smaller fleets are collecting information on shipments as the freight is being loaded onto their delivery trucks.

Carolina Freight Carriers, of Cherryville, N.C., has adopted a system that transmits both voice and two-way data by radio. Called specialized mobile radio, it uses a portion of the radio spectrum once reserved for taxis. The system is provided by Racotek of Minneapolis as well as other companies.

Since installing the system, primarily in its city trucks, Carolina's driver productivity, measured in stops per hour, has improved by 6 percent, and home-office productivity, too, has gone up 6 percent, according to the company.

Some companies use paging systems, which alert a driver by light, beeper, or both to call the office or whatever number appears on the pager's screen.

Choosing some system of mobile communications is doubtless a necessity for a large-fleet operator to remain competitive in an industry where time spent on the road is money—and a lost, stranded, or empty truck generally translates into lost revenue.

The American Trucking Associations' Anderson says that some trucking companies that fill a special market niche might find they can prosper without a computer-linked mobile-communications system, but for the most part, those that ignore the technology "probably won't survive." NB

Family Business

A daughter-and-father team; maintaining holiday harmony; second-generation tensions.

OBSERVATIONS

Creating A Hit Of Her Own

By Sharon Nelton

New twist: *Their pretzel package features Nell Newman and her father, Paul.*

PHOTO: T. MICHAEL KEZA

"I can't stay away from these damn things. They're *very* good."

So said one of my colleagues as he reached for yet another handful of the pretzels I had put out on the table outside my door. He was not alone. Other co-workers, helping themselves again and again, said the pretzels were "really crunchy" or "toasty" or "not too salty."

In other words, these pretzels were a big hit. Not bad for the second-generation family-business member who had to fight her famous dad—actor Paul Newman—to get them made. Like many a family-business father, he was resistant to a suggestion made by one of his offspring. Paul Newman is the co-founder and partner in Newman's Own, a company that makes salad dressings, pasta sauce, and salsa.

Four years ago, as Nell Newman recounts it, her father asked her during a telephone conversation if she had any ideas for new products. When she suggested he get into organic foods, she says, "he just grumbled on the other end of the phone." His impression was that such foods, which contain ingredients grown without artificial fertilizers or pesticides, didn't taste good.

Nell, who lives in California, set out to convince him otherwise. Not long after, when she went to her family's home in Connecticut for Thanksgiving, she prepared the traditional turkey dinner with all the trimmings. Unknown to Dad, however, all of the ingredients were organic. "When he finished wiping his plate clean, I said, 'So what did you think of your organic Thanksgiving dinner?' "

He liked it so much that he gave her the go-ahead to start a new division, Newman's Own Organics—The Second Generation. Nell, who had been working as a fund-raiser for a nonprofit environmental group, enlisted a friend, Peter Meehan, a former business owner, as her partner. They decided on pretzels as their first product because the pretzel market was burgeoning and because, Nell says, "Dad's a pretzel 'nut,' and I was raised on them." All of Newman's Own products, she says, "are ones that Dad enjoys."

Nell, who learned to cook under the tutelage of her mother, actress Joanne Woodward, formulated the recipe for the pretzels, and she and Meehan found a small Pennsylvania manufacturer to produce them with organic ingredients.

Introduced last year, the pretzels—salted and unsalted—are now sold throughout the country in natural-food stores and in such chains as Fresh Fields. Nell's younger sister, Melissa, also got into the act—designing the pretzels' packaging, which features a photograph of Nell and her dad in an "American Gothic" pose. The pitchfork-holding actor is identified as "Pa."

Nell, 35, expects her division to turn a profit soon and is working on developing new products. Following the tradition of Newman's Own, all after-tax profits from the organics division will go to charity. Since 1982, Newman's Own has donated more than $56 million to charitable causes.

That Nell's venture will generate hefty profits seems a good bet. As one of my co-workers asked, "How can we get these pretzels shipped in by the case?"

Sometimes it pays to listen to the kid. Just ask Paul Newman. ■

PLANNING

How Not To Ruin The Holidays

By Craig E. Aronoff and John L. Ward

As the year winds down, we entertain visions of sugarplums and make New Year's resolutions. Business-owning families, meanwhile, often find it necessary to consider other matters, such as family meetings, gifts of stock, and bonuses and dividends for family members.

Mixing sensitive compensation and estate-planning decisions with the holidays complicates matters. The discomfort can be so great that important decisions may be deferred for yet another year.

As the mother in one business-owning family told us with a sigh: "I understand the importance of family-business planning and communication, and I realize this is the best time to get everyone together, but I hate adding a family meeting to an already over-busy and over-stressful time. We never seem to get a break from the business!"

With respect for the holidays and the mix of emotions they bring—and the awareness of the inevitable end of the fiscal year—we offer several important seasonal thoughts:

Family Meetings

Time for pure family pleasure is essential for healthy family functioning. Too often, family members despair that whenever everyone gets together, all the talk is

about the family business. Prove that idea wrong this year.

This season, be sure that family time is fun. Refuse to let the family focus on the business—even if the whole group has to get together at another time to discuss the company. Protecting holidays for the family and discussing business on a separate occasion make for a happier family and a stronger company.

The development of thoughtful guidelines on such matters as giving stock, paying dividends, and awarding family bonuses is a good idea. When guidelines exist, decisions can be communicated earlier in the year. In that spirit, we encourage two principles: Build the nest egg, and gift aggressively. Both are fundamental to long-term family-business continuity.

Build The Nest Egg

We believe that providing financial security for the senior generation is perhaps the most important step in succession planning. Unless the parents feel secure, they are reluctant to pass on ownership, power, or control. The successor generation winds up feeling frustrated and untrusted. Emotions escalate.

To avoid this trap, parents must determine what their nest egg must be for their security and work with their successors to provide the necessary funding.

In the ideal case, the seniors have nurtured their nest egg with years of savings. Typically, however, instead of saving outside the business, they reinvest everything in the business for its survival and growth. Consequently, the nest egg has to be funded late in life.

As a result, the senior generation needs to take larger year-end bonuses. While taking large amounts may seem to weaken the business's balance sheet, in reality a stronger business results because its leaders feel more secure, confident, and energetic.

Another way to provide funds for the senior generation is for the junior generation to buy some of their parents' stock. If the members of the younger generation are to afford their elders' stock, they must receive larger bonuses. Another approach is for the business to redeem the elders' shares, which usually requires additional bank borrowing. Decisions about such matters are too weighty and difficult to be left to year-end.

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. They are principals in the Family Business Consulting Group, Inc.

To start estate planning and to give family bonuses and dividends, it's necessary to provide the means and the schedule for building the nest egg. The next step involves our second year-end financial-planning principle.

Gift Aggressively

As one family-business owner said sadly but succinctly, "The majority owner of my business is Uncle Sam!" It's true. For a business of moderate value, death taxes will consume more than 50 percent of the company's worth.

Estate taxes put the bite on family-business continuity. While there are several ways to overcome this problem, our experience suggests that the best solution is to make gifts of stock aggressively. We urge you to establish a gifting guideline appropriate to your business and family circumstances and stick with it every year. Each spouse can give $10,000 in value to each of as many people as they wish each year. When you develop a specific policy, the event becomes automatic and makes year-end wondering and discussions unnecessary.

If you are among the fortunate ones whose business is increasing in value faster than you give stock away, our advice is even more emphatic. To keep stock appreciation out of your estate, make early use of your unified lifetime tax exemption, which allows individuals or their estates to give $600,000. It often even makes sense to pay gift taxes to transfer ownership that is appreciating quickly.

Please get the advice of your tax advisers, but we find that paying gift taxes can be one of the best investments a business-owning family can make. Gift taxes cost less than death taxes, and early gifts permit more of the company to be passed on because of valuations lower than what will prevail in the future. The wealthiest families we know got that way and stay that way by aggressive gifting to succeeding generations.

Aggressive gifting, of course, brings us full circle. Parents are reluctant to gift aggressively if they don't feel personally financially secure—hence, the need to build the nest egg.

At year-end, many business owners get tense as they consider the troubling decisions of bonuses, dividends, and gifts of stock. The more conscientious of them feel the need to call a family meeting to explain their ultimate determinations.

We urge families to break free of year-end family-business tension by establishing principles to guide the decision making, by communicating those principles, and by implementing them at family meetings earlier in the year.

Make a New Year's resolution to determine what the senior generation's nest egg should be, and plan for its funding. Also resolve to put the best estate-planning tool available to work for you: aggressive gifting.

Please discuss these ideas with your professional advisers. Make and communicate your decisions earlier next year. And enjoy the holiday season with your family. ■

MARK YOUR CALENDAR ✓

Dec. 15, Cincinnati

"Estate Planning" is a seminar with introductory and advanced sessions. Call Sidney Barton, executive director of the Goering Center for Family/Private Business at the University of Cincinnati; (513) 556-7180.

Jan 13-15, 1995, Columbus, Ohio

The second Ohio Conference for Family Businesses includes sessions on communication, estate planning, limited-liability companies, and the multiple roles of women in family firms. Contact Ron Eberhard or Arlene Crosser, P.O. Box 458, Grove City, Ohio 43123; (614) 871-0114.

Feb. 1-4, Tampa

"Who's On Top? Gender And Power In Family Business" is a workshop to be conducted by consultants Matilde Salganicoff and Fredda Herz Brown. Contact the Family Business Learning Institute at (201) 461-7356.

CASE STUDY

Cousins In Conflict

Andy Lucas doesn't want to do it, but he believes that someone has to set limits on his cousin Eric.

"His irresponsibility is causing tension within the firm," says Andy. "Eric plays golf during the week and spends more money on entertainment than he brings into the practice."

Their fathers, John and Andrew Lucas, formed the law firm of Lucas and Lucas 23 years ago. Over the years, Lucas and Lucas has grown by specializing in product-liability litigation. Now there are 150 attorneys in the firm.

Eric's father, John, retired two years ago, and Andrew Sr. will retire next year. Andy is continuing the tradition set by the founding fathers; he is competent and hard-working and maintains successful client relationships. Eric, on the other hand, married into a wealthy family. He spends little time at the office, and his client relationships are limited to his golfing partners.

Scott, a nonfamily member of the firm's management team and a good friend of Andy's, believes Eric should be fired. "Eric thinks of himself as a deal maker," says Scott. "I think of him as a big spender who doesn't pull his own weight. Andy wants to keep him in the firm because of family loyalty, and even I recognize the fact that Eric's name brings a lot of business to the firm."

Andy feels the conflict between his loyalty to his family and his responsibility to the other professionals in the firm. He knows that if Eric is allowed to continue unchecked—with fewer billable hours than even the youngest associate at Lucas and Lucas—there will be dissension and the reputation of the practice may be hurt.

He wonders what options are available to him, the family, and the firm.

Take A Look At The Big Picture

The immediate problem as perceived by Andy, Scott, and possibly others in the firm is Eric's behavior, but I see this as being a component of the "big" picture of succession planning. The options include:

- Doing nothing and reacting to the resulting problems as they arise.
- Firing Eric (if Andy has the power and authority to do so) and dealing with the potential family problems and loss of clients, but improving internal relationships at Lucas and Lucas as well.
- The one I recommend—keeping Eric but giving him different responsibilities, such as marketing, that would better match his abilities and interests with the needs of the firm.

Eric's new responsibilities should be clearly communicated throughout the company, and his contributions to the firm should be valued as a source of clients for the other professionals. This is not a demotion but a better match between Eric's talents and the requirements of Lucas and Lucas. I would recommend that Eric take along other professionals from the firm to meet potential clients; this would promote teamwork. He must also operate within a budget.

These modifications in Eric's role and responsibilities should be only part of a group of broader changes to be carried out in preparing for the future. The thrust of the effort would be strategic planning and the implementation of a succession plan.

This process, like any change, has the potential to damage or strengthen the law practice and to worsen or improve personal relationships within the firm and the family. Andy and his family must proceed with care, seeking the help of trusted advisers as necessary, to be sure that the outcomes are positive.

Joyce Brockhaus, a licensed professional counselor and family therapist, is president of the Brockhaus Group, a family-business consulting firm in St. Louis.

Make Up For Fathers' Failure

Andy and Eric were set up by their fathers. John and Andrew Sr. should have taken the initiative to create participation and compensation rules for members of the future generation who qualified for and wished to join Lucas and Lucas. Issues such as performance expectations and reviews would have been resolved long before they turned into time bombs left to the children.

Family-business leaders frequently do not take the responsibility for setting up future generations to succeed and to work together as sibling and cousin teams. Andy and Eric now must take responsibility for creating a framework for themselves and future Lucases to work with and live by.

If Andy and Eric are two of multiple partners in the firm, the partners should convene (and, if need be, create) executive and compensation committees. These committees of the cousins' peers should compile statistics about the source of the firm's revenues and clients. Perhaps what Eric lacks as a practicing attorney he more than makes up for in promoting the firm's services. Firing him, as Scott so divisively suggests, may in fact be very damaging—to both the family and to Lucas and Lucas.

On the other hand, if Andy and Eric are 50-50 partners and if Eric isn't generating significant business for the company, then they must meet as adult cousins, acknowledge their responsibilities, and begin the arduous task of laying out the firm's needs and their expectations of each other as leaders of Lucas and Lucas—including their responsibilities as owners.

If they do not have the ability to resolve their differences, perhaps Eric can be enticed to sell his half of the firm to Andy or, with Andy's approval, to some other party.

Drew S. Mendoza is director of the Family Business Center at Loyola University Chicago.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.

Free-Spirited Enterprise

By Janet L. Willen

In time for the holidays, here are some gifts to add to your lists for giving—or getting.

The Sky's The Limit

Give the high-flier in your life a view of the fast lane with "How They Fly The Concorde," a videotape from **Media Marketing Group,** of Stowe, Vt.

With only 100 passenger seats and a $4,000 one-way fare for the three-hour flight from New York to London, not everyone will get a chance to travel on the supersonic jet. The 45-minute videotape shows what they're missing.

A narrator describes the final checks before boarding, the pilots' jobs in the cockpit, the flight attendants' work in

the cabin—which includes serving gourmet meals—and the landing. A clip from "The Sound Barrier," a film from the 1940s, aids in describing the technical details involved in supersonic flight.

The video costs $19.95 plus $3.95 for shipping and handling. To order a copy, call 1-800-993-0333.

Something Old, Something New

Golf clubs are high on most golfers' wish lists. **St. Andrews Golf Memorabilia Inc.,** of Walkerton, Ontario, lets you choose from the old and the new.

The company makes replicas of clubs used by such revered early players as Hugh Philp. The Philp clubs include a playclub (the original driver) from 1840, a putter from 1850, and a baffling spoon (wedge) from 1825. Each club costs $470. The trio of clubs also comes in a presentation set with six hand-rolled gutta balls and a personalized plaque in an oak-finished frame for $2,090, or in a gift set without the balls for $1,595.

More modern tastes may go for the CLIK hand-made modern woods with Canadian maple laminate and steel or graphite shafts. Cost for a set of 1, 3, and 5 woods: $595 for steel shafts and $895 for graphite.

For more information on available replica clubs as well as desk sets and other gifts, call (519) 881-3335.

It's In The Bag

So the people on your list can be as organized on the way to work as they are in the office, **Shleppers,** of New York, sells a variety of tote bags.

Also called Shleppers—from the Yiddish word "shlep," for "to drag or haul"—the bags are designed to combine a purse and a tote bag.

The Original Shlepper has a 16-inch top zipper, a concealed umbrella, a coin purse on a chain, a key ring, and pockets that can hold objects as large as legal pads and running shoes.

Other Shleppers include the leather Portfolio Tote, which adds a removable portfolio to the original; the Gym Bag, with pockets and pouches for sport shoes, clothing, and supplies; and the Diaper Bag, with removable vinyl-lined pockets

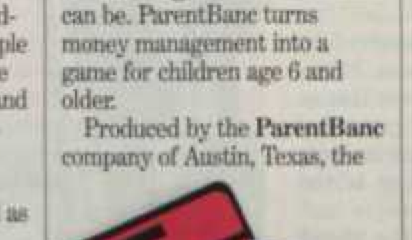
and pads as well as holders for bottles and pacifiers.

Shleppers are available in black leather and in black-on-black PVC (polyvinyl chloride). Prices range from $90 for the PVC Gym and Diaper Bag Shleppers to $190 for the leather Portfolio. For more information, call 1-800-SHLEPER, or 1-800-745-3737.

The Money Game

Writing checks isn't child's play, but learning how to write them can be. ParentBanc turns money management into a game for children age 6 and older.

Produced by the **ParentBanc** company of Austin, Texas, the



ParentBanc kit includes a checkbook, a check register, a wallet, an instructional guide, a calculator, and an identification card.

The parent is the bank, and the child is the customer. The child's allowance is entered as a direct deposit in the check register, but no money changes hands. To get money, the child writes a check to the parent.

ParentBanc costs $16.95. For more information, call 1-800-471-3000.

Power Plays

You can give the excitement of the high-powered corporate world with the board game Takeover, from **New World Games,** of Northbrook, Ill.

Players are either corporate owners trying to prevent a hostile takeover or raiders in pursuit of a corporate owner. One player is an insider trader, who risks punishment if caught and convicted. To win the game, a player must accumulate 100 shares of an agreed-upon number of companies.

The game is designed for two to six players, age 10 and up. Cost: $29.95. For more information, call (708) 559-8170.

And That's A Wrap

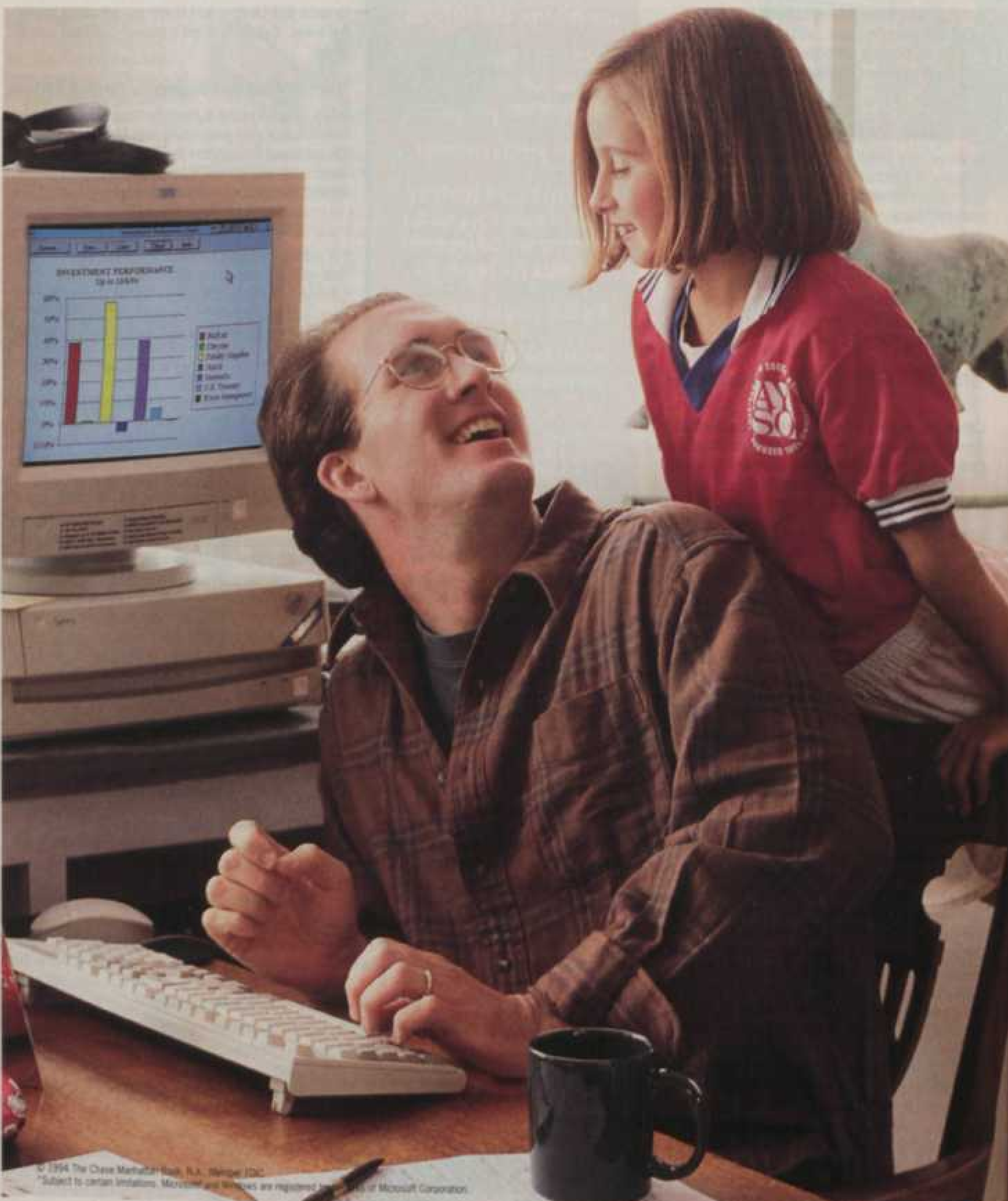
As beautiful as gift wrapping can be, it isn't always noticed. Living Paper from **Touch-It Color Change Products,** of Ogden, Utah, stands out because it can change before your eyes.

The company's gift wrap and boxes change color as the surrounding temperature increases or decreases.

Hold the paper or blow on it to cause the temperature to rise above 75.2 degrees Fahrenheit. The original hue will disappear or change, but it will return as the temperature cools down. Purple paper will turn pink, for example, and teal will become yellow.

Living Paper is also available in stationery, business cards, and laminated binders. For more information, call the manufacturer at (801) 394-4300. NB

ME & MY M


INVESTMENT PERFORMANCE
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Small Business Financial Adviser

Strategies and suggestions to help you and your business manage your money well.

Defined-Benefit Plans Pay Off For Late Starters

By Mary Rowland

Thanks to the red tape, high administrative costs, and snoopy Internal Revenue Service auditors, traditional pension plans—those that define the benefit that comes out of the plan at retirement—are going the way of the dinosaur, particularly for small businesses. But wait. There are still some perfect candidates for defined-benefit plans. If you are one of those candidates, no other retirement plan will suit you so well.

Answer these four questions:

- Are you over 50?
- Do you have very little in retirement savings?
- Is your business successful enough to make big contributions to a pension plan?
- Do you have only a few young employees or none at all?

If you answered yes to each, you would be allowed to put away more money for retirement under a defined-benefit plan than under any other type of plan. "Defined-benefit plans still make a lot of sense," says Bill Mischell, a principal at Foster Higgins, a benefits-consulting company in Princeton, N.J. "The perfect candidate is a middle-aged professional with a much younger staff who is getting a late start on retirement planning."

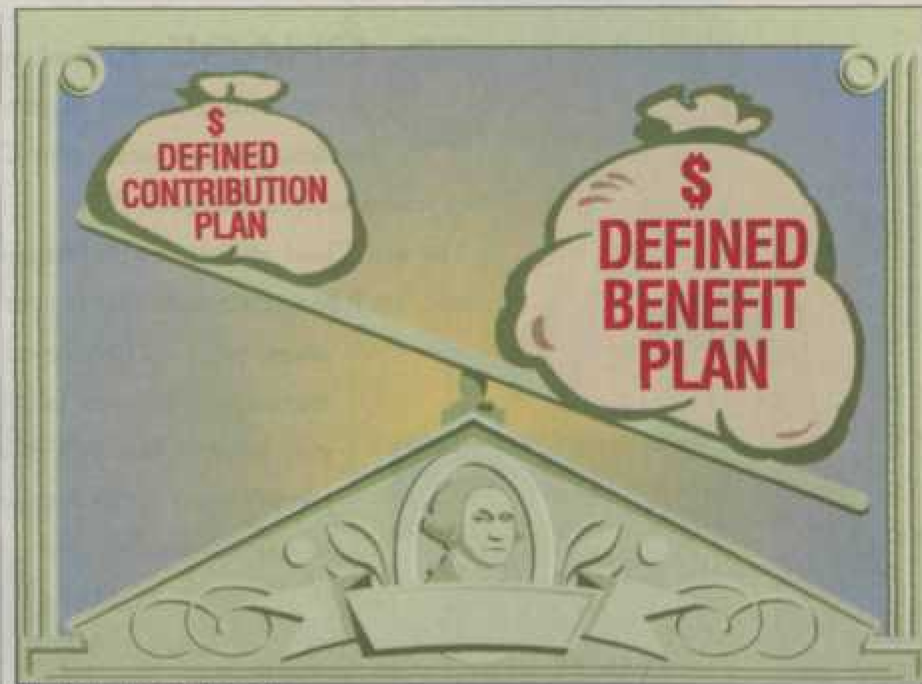
Consider the doctor who recently sought pension advice from Laura Tarbox, a financial planner in Costa Mesa, Calif. He had spent most of his career as a general practitioner working at various hospitals before going back to school to specialize in obstetrics.

Now, at 51, with just $54,000 in a variety of pension plans and individual retirement accounts, he is starting his own practice in El Centro, Calif., with one employee. "Theoretically, he could put away all the money he will make in his first year in a defined-benefit plan," Tarbox said.

Tax-qualified pension plans—or those that qualify for a tax deduction for contributions made—are divided into two broad categories.

Defined-contribution plans are tax-free savings accounts, such as 401(k) plans.

Mary Rowland writes a personal-finance column for the Sunday New York Times.



Federal regulations put a cap of 25 percent of the employee's pay or $30,000, whichever is less, on total contributions from the employer and the employee to a defined-contribution plan.

A defined-benefit plan, though, defines the annual benefit each employee receives at retirement, typically as a percentage of compensation. For example, the formula might provide for 1 percent or 2 percent of pay (up to the federal limit of $150,000) at the time of retirement multiplied by years of service.

The employer's annual contribution is then based on an actuarial formula that determines how much money must be accumulated to pay out that benefit. The formula takes into account the number of years before retirement and the amount of interest the money will earn—say, 8 percent a year.

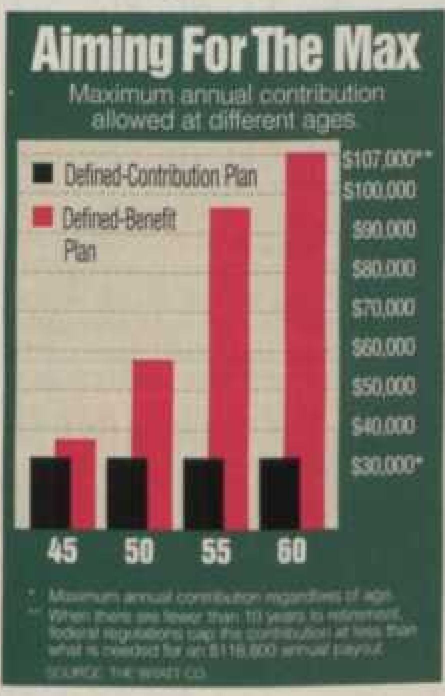
An important advantage of the defined-benefit plan is that, unlike any other type of plan, it permits an employer to take into consideration prior years of service. "If you have owned your own company for 20 years, you can give yourself credit for those 20 years of service" when you set up your pension plan, says Jerry Carnegie, an actuary in the Rowayton, Conn., office of Hewitt Associates, an actuarial firm based in Lincolnshire, Ill.

Consider the example of a 50-year-old who started a company 10 years ago and has no retirement plan. If he chooses a defined-contribution plan, his only option is to begin retirement contributions this year up to the $30,000 maximum. But if he chooses a defined-benefit plan, he can look at his entire career with the company, set a retirement income goal that takes into account all of his years of service and his salary, and then calculate how much he needs to begin setting aside to meet the goal.

We'll assume that he will earn at least the maximum annual salary of $150,000 when he retires at age 65. If he uses the formula of 2 percent of pay, he would earn a pension of $75,000 a year. That would require a lump sum at age 65 of $750,000, according to Richard Joss, a resource actuary in the Seattle office of the Wyatt Co., an actuarial and consulting firm based in Washington, D.C. He uses "a factor of 10" in his calculations. To determine the lump sum needed to provide a benefit of $75,000 a year, he multiplies $75,000 by 10. The younger the business owner, the less he will need to contribute each year to

reach that goal. But a 50-year-old must "get from zero to $750,000 in 15 years," Joss says. That would require a contribution of $35,000 a year, assuming an annual interest rate of 5 percent.

If he could afford to contribute more, he could raise the benefit formula from 2 percent of pay to give him the maximum allowed annual pension plan benefit, which



is $118,800, an amount that is indexed for inflation. In this case, he could use 3.168 percent of annual pay to arrive at the maximum benefit. That means he would need a lump sum of $1.18 million upon retirement, raising his annual contribution to $55,000.

Even if you are an ideal candidate, though, you should consider the risks before setting up a defined-benefit plan. The IRS does take a hard look at small-business owners with these plans to see if they are using them to stuff away too much tax-free money rather than maintain a legitimate pension plan.

The biggest risk comes from the possibility of putting more money into the plan than you can get out without major tax penalties. Remember the annual benefit limit of $118,800? Each year you must have an actuary estimate the maximum you can put in to reach that limit by retirement age. Thanks largely to the strong performance of the stock and bond markets in the 1980s, some small-business owners have discovered too late that there is more money in the plan than they can ever get out based on that benefit limit.

The excess amount is subject to a 50 percent federal penalty if it is withdrawn. In addition, federal, state, and local taxes are due on the entire withdrawal. The 50 percent penalty is not a credit against taxes.

So if a pension is overfunded by $100,000, the penalty is $50,000, and the company owes taxes on $100,000. "In New York state, that means you're pushing 98 or 99 percent in tax on the excess," said Ethan Kra, chief actuary for retirement services at William M. Mercer Inc., benefits consultants in New York. Regular pension fund withdrawals are taxable, of course, but there is no penalty.

Many small-business owners do not discover the problem until they decide to terminate the plan, typically when they are ready to retire and start taking pension fund distributions.

For example, two men who own a small manufacturing business sought advice last summer from Seymour Goldberg, a lawyer in Garden City, N.Y., about terminating their plan. Goldberg discovered that the plan had $200,000 in excess assets and that they stood to lose nearly all of it if they terminated the plan.

"I had one doctor who was overfunded by $3 million, several other doctors with several hundred thousand excess, and a manufacturer's rep who was overfunded by $400,000," Goldberg said.

There are no easy solutions. Sometimes the business can be merged or sold. Or, if the problem is discovered early enough, the bulk of the money can be rolled into an individual retirement account, where it can continue to grow with no overfunding penalty. Taxes and penalties, however, must be paid on the excess amount at the time the money is rolled over into an IRA.

The best way to avoid excess contributions is to review where you stand each year. If you are like most business owners, you cannot compute the benefit yourself. But you should discuss it with your actuary and press for details. If your actuary tells you that "you don't have to put any money in your plan this year," you should know that it's because you already have too much, Goldberg says.

You should also monitor investments. Actuaries make conservative estimates of how much the money will earn—perhaps 8 percent a year. If you've invested aggressively and your money grows much faster, it's time to take stock.

Finally, defined-benefit plans are expensive to set up. Expect to pay $4,000 to $5,000, says Joss of the Wyatt Co. Tack on another $1,000 a year for administration, including annual actuarial reports to the government.

For most small-business owners, the negatives of a defined-benefit plan outweigh the positives; but sometimes it proves to be the best choice. For example, Dan Maul, a retirement-planning consultant in Seattle, has set up 148 plans, and only one is a defined-benefit plan. But that plan works like a charm, he says. "It was for a business owner and his wife who are close to retirement, have no employees, and [have] a lot of cash in the company. For them, it is just right." ■

SERVICES

It's A Buyer's Market For Telephone Users

Competition from independent phone companies is prompting the local Bell companies and the major long-distance carriers to offer more services and bigger discounts for small-business customers.

"Long-distance companies, local phone companies, and aggressive independents are all going after small-business accounts," says Roger Cawley, director of communications for the Staten Island, N.Y.-based Teleport Communications Group.

"It's a buyer's market," says Shelley Miller, president of New York-based Information Technology Consultants. Miller notes that independent companies that compete with local Bells are offering "local service at significant discounts."

For example, MFS Intelnet, a telecommunications company based in Oak

Brook, Ill., is offering low-cost service packages (local and long distance) to small businesses in New York and Chicago and is expanding to other major cities in California, Illinois, Maryland, and Texas.

The big phone companies are responding with discounts of their own. AT&T has a plan to help the customer qualify for a bigger discount. "We have a bundled-bill deal that allows a small business to have all its phone services, including the owner's home phone, in one bill," says Monty Hoyt, an AT&T spokesman.

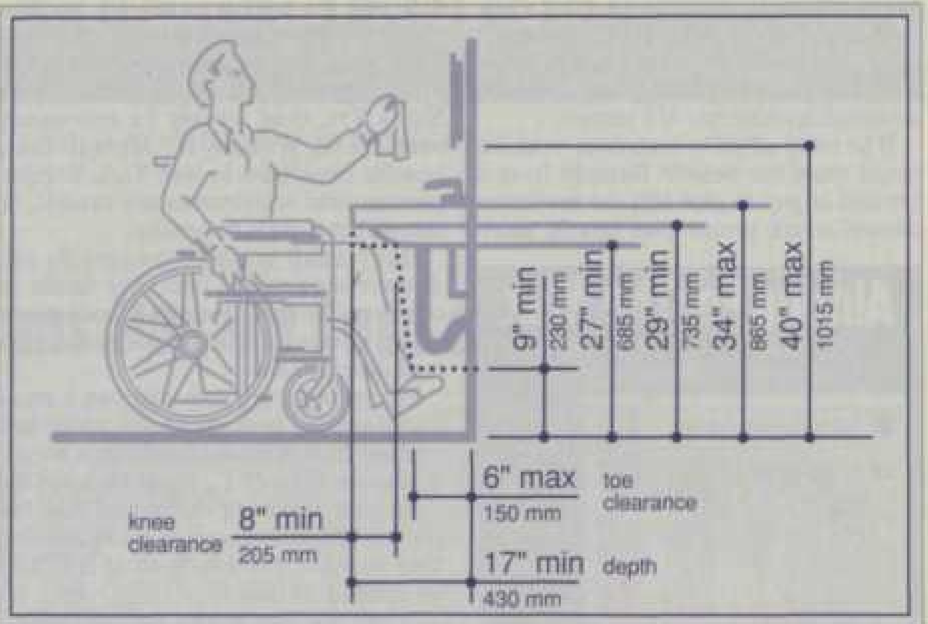
Sprint has a program that lets you build up credits to spend on things besides phone bills. "Our 'Most For Business' program," says Cynthia Corne, Sprint's small-business marketing manager, "lets you build up volume discounts and get frequent-caller points that can be exchanged for fax machines, phones, travel vouchers, and a variety of special services."

MCI has a new "find-me-follow-me" service for small-business owners who travel a lot around town or around the country. "When you get a call," says David Sutton, an MCI spokesman, "it can ring into your office, your home, your cellular phone, or a long-distance number."

—*Peter Weaver*

DISABILITIES ACT

Tax Deductions For Complying With Access Rules



Many business people may still be unaware of the federal tax breaks available to companies that make expenditures to comply with the equal-access requirements of the Americans with Disabilities Act (ADA).

The access rules—which apply to all companies—may require a business to eliminate barriers; widen walkways; modify stairs and floors; widen doorways; install ramps; make curb cuts in sidewalks; lower the height of drinking fountains, light switches, mirrors, and telephones; and modify elevators and bathrooms.

Under the special tax provisions for ADA compliance, a company can deduct annually up to $15,000 of the cost of these changes.

In addition, there is an annual credit to small businesses for various costs of complying with the ADA, including the modifications discussed above. Under this provision, a firm with fewer than 30 employees and under $1 million in annual gross receipts can claim a tax credit equal to 50 percent of total compliance costs over $250 up to $10,250; the maximum credit would be $5,000 in a given year.

Note that a business cannot take both a deduction and a credit for the same expenditures. Both types of benefits, however, can be applied to the same project. For example, if a company spends $25,250 to remove a barrier, it can receive a $15,000 deduction and a credit of $5,000.

Also, improvements costing more than $25,250 may be fully deducted if they are considered repairs. Expenditures totaling more than $25,250 that do not qualify as repairs may still be depreciated over the life of the asset.

In addition to architectural modifications, the ADA calls for businesses to make other expenditures such as supplying qualified interpreters or materials for the hearing-impaired, providing qualified readers and taped texts for the visually impaired, and modifying equipment or devices for disabled individuals. These expenditures also qualify for the tax credit.

Some of these expenditures, such as salaries for interpreters, are deductible even without the special tax credit. But a company that takes the credit rather than a deduction will get a larger tax benefit (almost 50 percent) by doing so.

Other expenditures such as modification of equipment are generally capital in nature. A company can take a current credit for these expenditures under this special provision rather than capitalizing them and amortizing them over the life of the improvement.

—Albert B. Ellentuck

DEDUCTIONS

Treasury Restores Part Of Tax Break For Club Dues

Just when you thought Congress had wiped out the tax deduction for club dues, the Treasury Department brought it back—at least partially.

Before 1993, a business could deduct club dues if the club was used for the benefit of the business. The 1993 Omnibus Budget Reconciliation Act, however, eliminated deductions for dues in any club, whether organized for "business, pleasure, recreation, or other social purposes."

Nonetheless, the Treasury Department concluded that Congress really didn't mean to eliminate the deduction. The legislative history of the provision indicates that Congress meant to ban the deduction for country clubs and the like, but not business or public-service organizations, says Robert Kilinskis, a tax lawyer who recently left the Treasury Department to join an accounting firm. The department has issued proposed regulations that would ease these restrictions by exempting certain business-related and civic organizations and allowing a deduction for dues paid to them. Barring unexpected objections to the proposed regulations, chances for their adoption by the end of the year are extremely good.

The proposed regulations would prohibit deductions for dues paid to any membership organization whose principal purpose is to conduct entertainment activities for members or their guests, or to provide members or their guests with access to entertainment facilities. This clearly would eliminate country clubs, hotel and airline clubs, golf and athletic clubs, and business-luncheon clubs.

On the other hand, the proposed regulations would allow a deduction for dues paid to professional organizations such as bar and medical associations, business leagues, trade associations, boards of trade, chambers of commerce, real-estate boards, and civic or public-service organizations such as Kiwanis, Rotary, Lions, and Civitan. If the Internal Revenue Service, however, found that the main purpose of any such organization was to provide entertainment to members, dues would not be deductible.

Keep in mind that you may still deduct 50 percent of the cost of otherwise allowable meals and entertainment at a club even though you may not deduct the club dues. For example, let's say you take a customer to your county club for lunch and have a business discussion during the meal. Half the costs of the meal would still be deductible even though you bought the meal at your country club.

—Albert B. Ellentuck

INVESTING

The Pluses And Minuses Of Small-Company Stocks

By Randy Myers

Is this a good time to invest in small-company stocks?

Conventional wisdom holds that small-capitalization stocks—defined here as companies with a total market value of less than $750 million—tend to outperform their larger cousins over the long term. Sometimes, the divergence can be dramatic: From 1991 through 1993, the Russell 2000 index of small-capitalization stocks posted a cumulative total return of 105.6 percent, compared with a gain of 54.6 percent for the Standard & Poor's 500, a widely recognized big-stock barometer.

But small-company stocks can be volatile. Because small firms have relatively few shares outstanding, it doesn't take a big buy or sell order to push their share prices up or down. And investors easily become nervous about small-company stocks when the economic going gets rough, recognizing that small firms don't have the resources bigger companies have to weather storms.

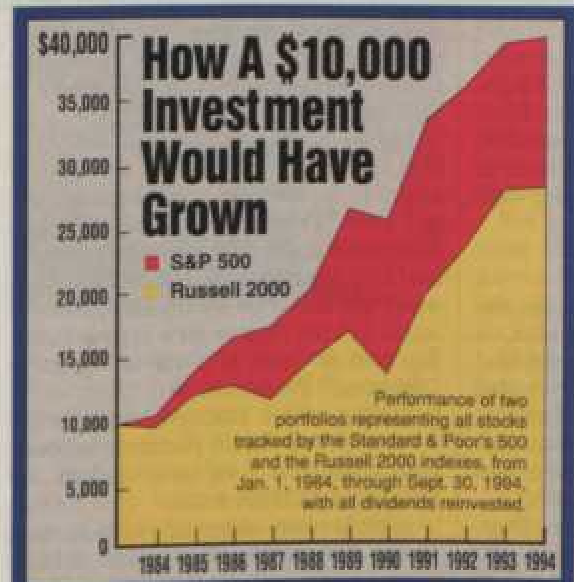
Little wonder, then, that small-company stocks are among the first to sink when business conditions deteriorate or the stock market turns sour.

In 1987, for example, when the market suffered its infamous October crash, the Russell 2000 lost 8.8 percent, while the S&P 500 earned a return of 5.2 percent. Even over moderately long periods of time, small stocks can lag. A hypothetical investment of $10,000 in the S&P 500 on Jan. 1, 1984, would have been worth $40,309 by Sept. 30, 1994, with all dividends reinvested, while the same investment in the Russell 2000 would have grown to only $28,352.

Small caps stumbled again in 1994, as inflationary fears and a consequent series of interest-rate rises by the Federal Reserve Board sent investors scurrying for the safety of blue chips. On Sept. 30, the Russell 2000 showed a total return of 0.05 percent for the year, while the S&P 500 boasted a return of 1.3 percent, and the Dow Jones Industrial Average, a purely blue-chip index, showed a total return of 4.4 percent.

"It's unfortunate, but sometimes that's when opportunities can be found," says Robert Kippes, a mutual-fund manager who guides the high-performance AIM Aggressive Growth fund and invests it almost exclusively in small-cap stocks. Not that Kippes has had much reason to worry. Despite the broad market's problems, his fund rose 11.2 percent through the first nine months of 1994, primarily on the strength of investments in small technology and health-care companies.

Kippes remains optimistic about the outlook for small caps. So does Ronald Elijah, who runs the $48 million Robertson Stephens Value Plus fund. He says the health-care and technology sectors still have room to run. The former should continue to benefit from the aging of the U.S. population, and the latter from the pervasive spread of technology into every aspect of American life—from gasoline pumps with credit-card readers to computers that also serve as television sets, answering machines, and alarm clocks.



SOURCE: MEDIA GENERAL FINANCIAL SERVICES

On the macroeconomic front, Elijah theorizes that a slowing but still growing U.S. economy, combined with low inflation, will allow corporate earnings to come in strong in 1995, sending stock prices higher and allowing small caps to outperform the market once again.

All of that may not mean much for investors who don't invest in small-cap stocks as a matter of principle. Robert Bowen, a senior financial consultant with Merrill Lynch in York, Pa., says many small-business owners take that approach. Having risked everything to build their own businesses, he says, they're not inclined to invest their profits in other small, risky ventures.

But that kind of thinking deprives owners of a chance to capitalize on the unique insights they can bring to their investments, according to Steven Wilk, president of TransNet Corp., based in Branchburg, N.J., a seller of computers and computer services. "Because I am intimately involved with a small business, I feel I have an advantage when I look at the balance sheet and profit-and-loss statement of another small company," Wilk says. "I have an ability to place myself in another CEO's seat."

Mark Cuban, who in 1991 sold his Dallas-based computer systems integration company, Micro Solutions Inc., agrees with Wilk. "Running a business and investing in a business go hand-in-hand," says Cuban, who now splits his time investing and consulting. "When you're an industry insider, you understand the momentum of an industry, the nuances of changes in suppliers, policies, approaches, strategies. You can anticipate the impact of these things. On the outside, you can only react."

What should an investor do to take advantage of the historically strong but volatile performance of small-cap stocks?

First, play to your strengths, scouring the industry you know best. Cuban, for example, invests only in stocks of companies involved in personal-computer technology. But diversify your holdings, too, by investing in more than a few stocks. If your portfolio is too small to do that on your own, consider a mutual fund that specializes in small-cap issues.

"Anybody who thinks they can buy three stocks and do well is probably going to get into trouble," Kippes warns. "If just one of them goes down 50 percent, there's nowhere to hide. If one of my stocks blows up, it's just one of 300 or 400 in my portfolio, and the impact is minimal." Elijah puts about 40 percent of his portfolio in big-company stocks, just to hedge his bets.

Be an information hound, too. Cuban reads trade magazines, maintains contact with industry colleagues, and cruises the electronic highway for tidbits of information. "I can join a forum on CompuServe or Prodigy and get the same kind of feedback from customers and vendors that I did when I was making sales calls," he says.

Finally, be honest about your investment objectives. If you've got a long-term horizon and the stock market doesn't perform well in 1995, you can probably ride out the downturn and perhaps, like Kippes, add to your positions when prices are cheap.

That's a prudent approach if, as some analysts believe, the bull market of the early 1990s may be running out of gas in the near future. But if you're going to need your money in another year or so—for retirement, perhaps, or to pay for a child's college education—small-cap stocks may be too risky for you. NB

Randy Myers is a free-lance writer in Dover, Pa.

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

EXPANSION

Growing Pains

I currently own a small, successful, independent plumbing-supplies store. I am thinking about opening another location in an adjacent market. What are some of the things I should do before making such a decision?
C.P., Humboldt, Kan.

Opening a new store requires some detailed research, says Bill Pearson, a Pasadena, Calif., strategist, analyst, and lecturer on the small-store-independent segment of the retail industry. Two key questions, he says, are how much business you can reasonably expect from your new store and where you should locate it.

To check out a specific location, Pearson recommends, you should consider conducting a door-to-door survey of neighboring retailers, asking them about their experiences as business owners in that market.

Before moving into an additional location, find out about the ebbs and flows of business in both the neighborhood and the town. Talking with retailers whose businesses are similar in size to yours can lead to a discussion of sales volume. "You won't get last year's financials, but you might get the figures for a typical Saturday and an idea of what to expect in December," Pearson says.

Talking with a business broker in the town may also reveal pertinent information about the long-term outlook for business in that market.

A broker may share information about recent transactions that could indicate

how buyers view the market's potential.

Other factors for a company to consider when opening an additional location include square-footage needs, level of inventory, overall operating expenses, and desirable rent.

Pearson welcomes questions. Send your inquiries to him at Retail Analysis & Planning, 1625 Knollwood Drive, Pasadena, Calif. 91103.

For more on the subject of expanding to new locations, see "Branching Out," in the November issue. ■

AGRICULTURE

Cultivating Ginseng

I am interested in growing ginseng. Where can I get more information?
T.I., Jamestown, Tenn.

Ginseng, used in the United States for a kind of tea, requires a lot of time, labor, and money to grow, says Howard "Bud"

Kerr, program director of the Office for Small-Scale Agriculture in the U.S. Department of Agriculture.

Most American ginseng comes from Wisconsin, where there are nearly 1,300 growers. The U.S. ginseng-root harvest last year totaled nearly 1.7 million pounds and was valued at almost $70 million. Prices are based on market conditions and root quality, weight, and color. There are three kinds of American ginseng: cultivated, wild, and woods-grown.

The United States' biggest ginseng customer is China, where the plant is used in a stomach-soothing tonic. China's consumption of U.S.-grown ginseng totaled nearly 1.3 million pounds in 1991 and has risen 20 percent over the past three years.

The Office for Small-Scale Agriculture offers a free fact sheet on American ginseng. Write or call Howard Kerr, Program Director, Ag Box 2244, Washington, D.C. 20250-2244; (202) 401-1805.

American Ginseng Trends, a bimonthly newsletter, covers the international industry. The publication costs $34 a year and is available from Future Concepts, Inc., P.O. Box 1982, Wausau, Wis. 54402-1982; (715) 675-4898.

The 1994 International Ginseng Conference offered a wide range of seminars and industry information. For more information, write or call Conference Services, Simon Fraser University, Burnaby, British Columbia, Canada V5A 1F6; (604) 291-4910.

For help with ginseng disease—root rot, leaf blight, and seedling disease—write or call Jennifer Parke, a professor of plant pathology at the University of Wisconsin. Parke, who conducts workshops on ginseng, can be reached at the Department of Pathology, University of Wisconsin, Madison, Wis. 53706; (608) 262-0061.

For a first-person account on the ginseng business, see the June Entrepreneur's Notebook, "Profiting From A Global Mind-Set." ■

BUSINESS BROKERS

The Go-Between

I am trying to find a good business broker to help me get ready to sell my business. How do I know a good business broker from a bad one?
I.L.F., Mesa, Ariz.

A good business broker has appropriate state real-estate licenses, says David Kupper, managing director of the Bauer Group, a Cincinnati-based business brokering firm. "Look for someone who has had experience in selling *businesses*, not residential property or commercial property," he says, and expect the broker to ask you for most if not all of the following:

■ The reason you have decided to sell your business and what you plan to do after it is sold.

■ A business plan and a strategy for the company to increase its market share.

■ The benefits you provide.

■ A list of your top 10 customers for a given period, with amount of purchases and percentage of total sales each of those customers represents. "What you are

after here is to see if one or two customers represent the majority of the business," says Kupper, "which increases your vulnerability if you lose one."

- A list of your employees, with the descriptions, lengths of service, and compensations.
- A building ownership deed, plat, and appraisal, or a lease agreement.
- A list of all office equipment.
- A list of major suppliers and principal competitors.
- Promotional literature, advertisements, and news articles on the business.
- Financial statements and tax returns for the past three years and the year to date.
- Information on any lawsuits or claims against you.
- All loan agreements, the rates of interest, and terms.

For more information on the topic, see "Putting A Price Tag On Your Business," in the January 1992 issue.

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Writers will be identified only by initials and city. Questions may be edited for space.

RETAILING

Using Your Noodle

I have a passion for pasta, and I want to open a small specialty retail shop that sells only pasta. Where can I get some help on distributors, setting up shop, etc.?
S.B., Madison, Wis.

"The consumer's taste for pasta has risen dramatically over the past three years," says Donna Chowning Reid, marketing director for the National Pasta Association, in Arlington, Va. The organization's studies show that in recent years pasta sales at all levels—wholesale, retail, in restaurants—have increased an average of 2.5 percent annually.

The *Positively Pasta!* newsletter, published three times a year by the pasta association, costs $4 per year and provides a wide range of information on the pasta industry as well as nutritional data. The group also carries a selection of publications and recipe collections aimed at the consumer. Prices vary, with discounts for bulk sales.

The pasta association maintains a directory of members—pasta manufacturers—and affiliate members, who include distributors, packagers, and equipment makers. There is a charge, depending on the list you request.

For more information, write or call the National Pasta Association at 2101 Wilson Blvd., Suite 920, Arlington, Va. 22201; (703) 841-0818.

For help in starting a specialty food retail business, write or call the National Association for the Specialty Food Trade, Inc., 8 W. 40th St., Fourth Floor, New York, N.Y. 10018-3901; (212) 921-1690.

The association offers start-up information for small gourmet shops. A free publications list includes books that cover store design, market research tips, and import information.

Another source is probably at your local library. The *Thomas' Food Industry Register* contains a section on start-up information for small specialty food stores. NB

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Demographics, lifestyle changes, and technological advances are driving small-store owners to adopt new approaches. (Page 18)

***TOEING THE LINE ON HIRING** **#9038**
Ignorance of immigration law can result in large penalties for firms of any size. (Page 34)

***CASTING A WIDER EMPLOYMENT NET** **#9039**
By diversifying its work force, a company can tap sources of seasoned talent and broaden its customer base. (Page 49)

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On Budget Issues

Tax reductions and spending cuts are expected to be major topics of discussion in Congress next year. The following questions seek your views on these issues.

Results of this poll will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid response card. Or circle your answers below and fax this page to (202) 463-5636.

1

Of these prospective tax changes, which one is the most important to you as a business person?

1. Capital-gains reduction
2. Reduction in individual tax rates
3. Reduction in corporate tax rates
4. Accelerated depreciation of capital expenditures

2

To achieve significant spending cuts, would you approve of reductions in entitlement programs, which include Social Security, federal civilian/military retirement, Medicare, Medicaid, veterans' benefits, and welfare?

1. Yes
2. No

3

If you were forced to choose just one, which of these two widely discussed approaches to controlling the deficit would you prefer?

1. Balanced-budget amendment to the Constitution
2. Line-item veto authority for the president

4

How do you feel about the proposal to increase the long-standing 25 percent tax deductibility of health costs for small-business owners to 100 percent?

1. Absolutely critical
2. Helpful, but not critical
3. Not particularly significant

5

Which one of these possible tax-relief measures for capital gains is most important to you?

1. Full deductibility of all capital losses against ordinary income
2. Indexation of asset value so that gains attributable to inflation would not be taxed
3. Exclusion of half of gains from taxable income
4. Lower rate

6

Both Democrats and Republicans have talked about a middle-income tax cut. How do you, as a business person, feel about that?

1. Support
2. Support, if offset by spending cuts, not more business taxes
3. Oppose
4. Oppose, unless business taxes are also reduced

Send Your Response Today!

POLL RESULTS

Readers' Views On Health Reform

Congress should give no further consideration to proposals that would require employers to provide health insurance to employees, in the view of an overwhelming majority of *Nation's Business* readers responding to a survey on future health-care-reform initiatives.

The questions in the October Where I Stand poll sought readers' opinions on what direction the next round of reform proposals should take in view of this year's failure of President Clinton's plan for a massive overhaul of the medical-care system.

Health-care reform is expected to emerge again in Congress next year. While it is far from certain what specific recommendations individual lawmakers will try to carry over from the last session, those covered by the survey are expected to be among proposals that will be introduced again.

Readers expressed strong opposition to the revival of many of the initiatives, in addition to mandated coverage, that figured in the 1994 debate.

By varying degrees, they disapproved of such steps as federal subsidies to help small businesses and low-income individuals purchase health insurance; federal cost controls on physicians' services and hospital fees; limits on the right of employers to self-insure; a "willing-provider" rule, under which a health-care organization would have to accept any physician willing to join it; and taxation of health-insurance premiums.

Here are the complete results of the survey:

HEALTH REFORM

■ **Should Congress continue to consider employer mandates as part of health-care-reform legislation?**	1. Yes 2. No 3. No opinion	14% 84 2
■ **Should Congress continue to consider federal subsidies to small businesses and to low-income individuals to buy health insurance?**	1. Yes 2. No 3. No opinion	33% 62 5
■ **Should federal cost controls on physicians' services and hospital fees be part of reform legislation?**	1. Yes 2. No 3. No opinion	36% 61 3
■ **Would you accept limits on the right of employers to self-insure their health-care plans rather than purchase coverage from an insurance company?**	1. Yes 2. No 3. No opinion	35% 53 12
■ **Should health-care plans be required by law to accept any physician wishing to join regardless of the impact on a plan's bottom line or quality of care?**	1. Yes 2. No 3. No opinion	14% 77 9
■ **Taxation of health-insurance premiums is among the proposals for financing health-care reform. Would you support such a tax?**	1. Yes 2. No 3. No opinion	9% 89 2

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Christine K. Nowroozi

How Stress May Make You Sick

Most of us feel stress, and many of us accept it as part of modern life. But what impact does stress have on our physical well-being?

The mind-body connection has been recognized since ancient times, and now stress is being linked by medical researchers to hypertension, heart attacks, diabetes, asthma, allergies, headache, backache, various skin disorders, and maybe cancer.

Researchers at the American Institute of Stress, a New York-based not-for-profit organization, maintain that 75 to 90 percent of patients' visits to physicians are for ailments that have some kind of link with stress and that controlling stress could be instrumental in controlling rising health-care costs.

Compared with 10 or 15 years ago, there is overwhelming evidence today that stress plays a major role in disease, says Dr. Paul Rosch, president of the stress institute and professor of medicine and psychiatry at New York Medical College. He believes that stress is more powerful than diet in influencing cholesterol levels. Several studies—including one of medical students around exam time and another of accountants during tax season—have shown significant increases in cholesterol levels during stressful events, when there was little change in diet.

Medical researchers have also found evidence that stress influences the immune system, weakening the body's defenses against a host of viral disorders. In a study done in England that was presented earlier this year at a National Institutes of Health conference on mind-and-body interactions and disease, about 400 people were intentionally exposed to common-cold viruses. Those who scored highest on a test of stressful life events were more than twice as likely to develop colds after this exposure than people who scored lowest. The study's chief investigator, Dr. Sheldon Cohen, a psychology professor at Carnegie Mellon University, in Pittsburgh, is now trying to understand how stress affects a person's susceptibility to the common cold.

Previous studies of stress and the immune system have found stress-related decreases in the number of infection-fighting white blood cells, as well as changes in their function. The studies have also found hampered activity of other immune-system cells.

There is also some evidence that stress is a factor in the onset and development of cancer. But showing that stress affects the immune system is not the same as proving that stress causes cancer, Rosch points out. Establishing that direct link, he says, will be a lot tougher than showing that evidence for it exists.

Still, physicians and many working Americans aren't waiting for all the proof that science demands. Stress reduction is becoming a part of disease prevention and treatment. Increasingly, some physicians say, there will be more stress-reduction programs offered in the workplace and more insurance coverage for such programs outside the corporate structure. Last year, for example, Mutual of Omaha and other insurers began paying for selected policyholders to take part in a program designed to reverse heart disease. The program is based on exercise, a vegetarian diet, and stress-reduction techniques such as meditation. It was designed as an alternative to surgery and angioplasty by Dr. Dean Ornish, who is on the faculty of the University of California at San Francisco Medical School.

PHOTO: ©PETER LANGONE—INTERNATIONAL STOCK PHOTO

Medical researchers *have found evidence that regular stress weakens the body's defenses against disease.*

Well-designed programs can do a lot to reduce illness, according to Rosch, but he points out that stress is a highly personalized phenomenon and that what is distasteful for one person may be pleasurable for another. Some people think jogging reduces stress, for instance, but others find it stressful. What is important is our ability to cope with stress.

Rosch recommends that everyone take a stress audit every so often. Make a list of all things you find stressful. Create two categories: what you can do something about, and what you can't do anything about. Try to change what you can change and adapt to what you can't change. Distinguish major irritants from life's ordinary hassles and temporary annoyances.

Think of your stress audit as a necessary mental examination, just as important as a regular physical exam. Treat your own conclusions as seriously as you would a doctor's prescription. Then, Rosch and other experts say, seek out those activities that relax you the most: exercise, yoga, hot baths, meditation.

Call your local health club or YMCA, or seek help from a psychologist or a local stress-management and counseling center. Try to view stress reduction as an integral part of disease prevention.

In doing that, you will safeguard not only your mental health but, it seems more and more clear, your physical well-being as well. ■

Christine K. Nowroozi is a free-lance writer on health topics in the Washington, D.C., area.

Editorial

What Business Can Expect From The New Congress

The lessons of the 1994 elections are obvious.

Candidates advocating less taxation, less spending, and less government were the big winners. Those associated with more taxes, more spending, and more government were the big losers.

There were, of course, some exceptions, but that was the pattern that gave Republicans political victories on a scale that far exceeded their most optimistic forecasts.

Most of the experts had said that the GOP had a long-shot chance of gaining the seven seats needed for Senate control but had no realistic prospect of winning the 40 added seats needed to achieve a House majority. The actual gains were nine and 52, respectively.

The historic significance of those results are mind-boggling. If you accept, as many political scientists do, that the modern era of governmental activism began with the election of the first New Deal Congress in 1932, you can grasp the magnitude of what happened on Election Day 1994.

Democrats controlled both branches of Congress for 52 of the ensuing 62 years; they controlled the House of Representatives for 58 of those years. Only two of the 535 lawmakers who will convene in January ever served in a Republican-controlled Congress. Indeed, many of them had not even been born when the last national legislature under GOP control adjourned on Dec. 2, 1954.

What can business expect of the new congressional majority that will come to Washington with new leadership, new ideas, and a vastly different concept of the role of government?

The business answer to that question is summed up by Richard L. Lesher, president of the U.S. Chamber of Commerce: "We project that these new members will come to Washington with a heightened sensitivity to the concerns of the public and an understanding of free-enterprise dynamics."

It is now up to the new leaders of Congress to translate the election returns into specific legislative initiatives. We do not underestimate the complexity of organizing a Congress when such profound changes have taken place in political control and leadership, but the members of the new majorities do not necessarily have to start from scratch in drafting measures to achieve their legislative goals.

Many proposals that would help achieve the objectives of the new congressional majorities will carry over from the current Congress.

These include measures to reform the budget-drafting process, reduce government-imposed paperwork, overhaul product-liability laws that unfairly penalize businesses, place limits on government mandates requiring state and local governments or the private sector to spend money, and get the nation's highway system ready for the demands of the 21st century.

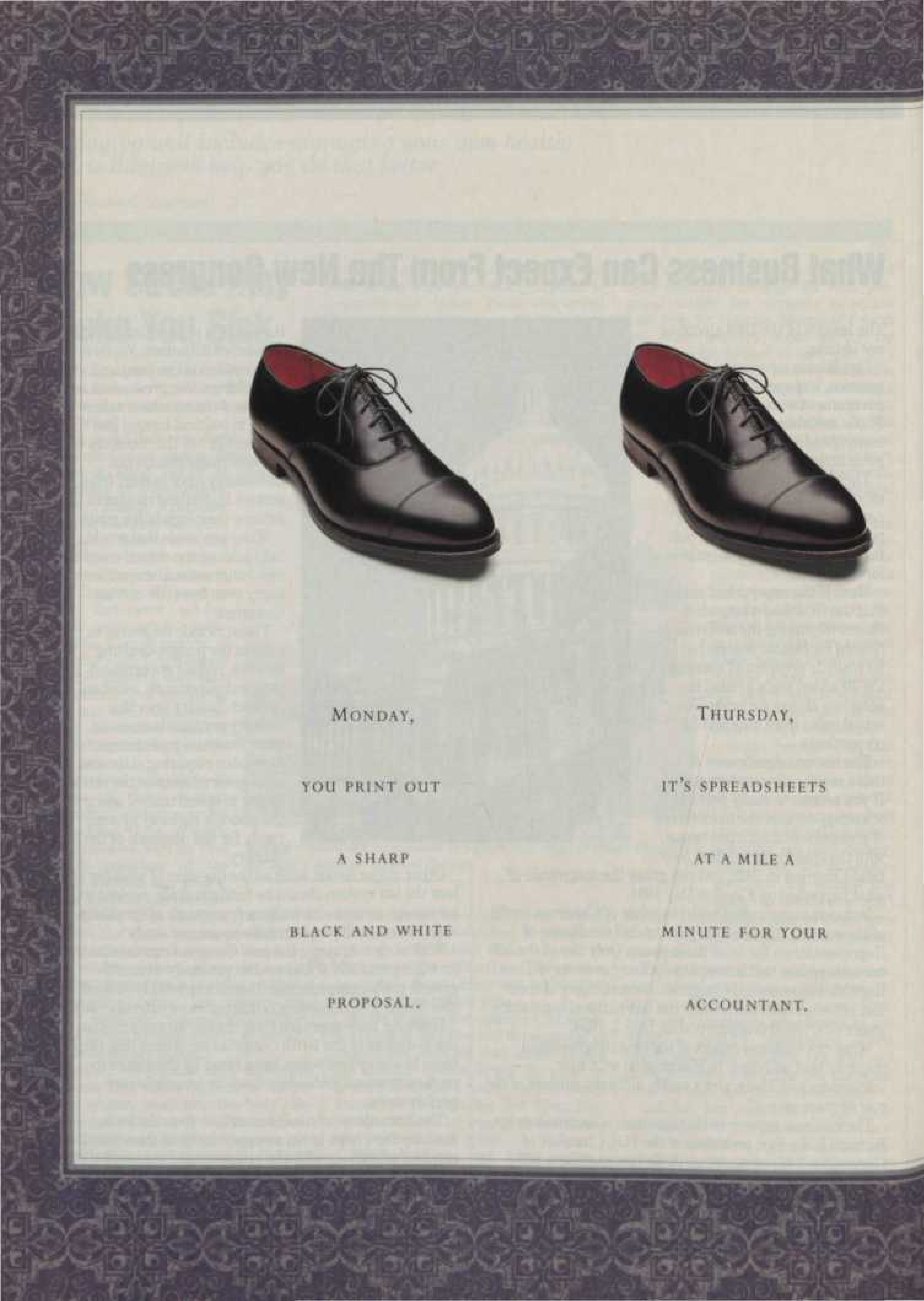
Other major issues, such as the question of whether and how the tax system should be fundamentally revised to encourage investment within a framework of simplicity and fairness, will properly take prolonged study.

With such a strategy, the new Congress can demonstrate its willingness and ability to deal promptly with anti-growth problems amenable to such a timetable while it also works on those issues requiring more extensive study.

However they approach their duties, we are sure that the members of the 104th Congress are aware that they have, in a very real sense, been hired by the voters to replace previous jobholders fired for unsatisfactory performance.

The lawmakers who will embark on their duties in January have been given an opportunity to show that they can deal effectively with the problems and concerns that caused the electoral revolution of 1994.

The American people have high expectations for this Congress. We wish its leaders and its members every success in meeting them. NB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The Business Advocate

SUPPLEMENT TO Nation's Business DECEMBER 1994

U.S. Chamber of Commerce

Election Reaction, Page 87

Chamber Fights FEC

Stephen A. Bokat, vice president and general counsel for the U.S. Chamber, explains how a Federal Election Commission rule prohibits the group from sending a report on political endorsements to its members. At right is Michael A. Nemeroff, counsel for the American Medical Association, which joined the Chamber's suit against the FEC.

The U.S. Chamber of Commerce is pressing its legal battle to regain the right to tell its members which candidates it endorses for Congress.

The target of the court action is a Federal Election Commission rule barring the business federation from communicating that information.

The rule "has profoundly abridged our rights of freedom of speech and association," the Chamber says.

Continued on Page 90

■ Action Call

Dial Lawmakers Now On GATT

The U.S. Chamber of Commerce is urging its members to tell their incumbent U.S. representatives and senators to vote for legislation to expand world trade.

The House is expected to vote Nov. 29 and the Senate Dec. 1 on the measure, which would implement the latest accord negotiated by the United States and about 120 other nations under the General Agreement on Tariffs and Trade.

"It's crunch time now," said Willard A. Workman, vice president/international for the Chamber. "The vote on GATT is imminent, and we need every member of the U.S. Chamber to let his or her representative and senators know that this trade accord is vital to U.S. competitiveness in a global economy. It's vital for U.S. trade, and it's vital for U.S. jobs."

The trade pact was signed by representatives of the participating nations in mid-April and is scheduled to take effect Jan. 1.

The Senate and House decided in October to delay consideration of the legislation to implement the pact until a brief lame-duck session after the Nov. 8 elections.

As part of its campaign to win approval of the pact, the Chamber has provided information on the accord to its members, senators and representatives, and the media. It has also provided lawmakers and the media with data on the expected effects on each state.

Success of the GATT Uruguay Round negotiations—and more recently the agreement itself—have been top priorities of the Chamber over the past two years.

The Chamber says the GATT Uruguay Round accord will accelerate U.S. exports and economic growth and will create hundreds of thousands of jobs in this country. The negotiations were named for the South American country where the trade talks began in 1986.

Willard A. Workman, vice president/international for the U.S. Chamber, says senators and representatives need to hear immediately from Chamber members supporting the GATT bill.

The trade pact is expected to cut global tariffs by more than one-third, eliminate tariffs in some export sectors, protect intellectual-property rights, reduce agricultural subsidies, and bring trade in services under GATT's auspices.

Among other benefits, the trade agreement will:

■ Increase U.S. gross domestic product (GDP) by $100 billion to $200 billion annually over 10 years.

■ Cut global tariffs by more than one-third, boosting the world economy.

■ Expand U.S. exports of goods and services by eliminating foreign tariffs for key U.S. exports.

■ Reduce agricultural export subsidies worldwide, and increase U.S. agricultural exports by as much as $8.5 billion a year by 2005.

■ Protect intellectual property of U.S. entrepreneurs from piracy in world markets.

■ Provide expanded market access in fast-growing countries like Brazil, Thailand, and Malaysia.

U.S. consumers would be big winners under the agreement. Industries expected to be major beneficiaries include agriculture, chemicals, paper, toys, software, travel and tourism, beer, banking, construction, transportation, medical equipment, steel, computers, retailing, electronics, pharmaceuticals, household appliances, insurance, telecommunications, aerospace, semiconductors, and furniture.

According to Treasury Secretary Lloyd Bentsen, tax revenue from increased business activity generated by the Uruguay Round agreement would hold down the U.S. budget deficit by $60 billion over the next 10 years.

Call your representative and senators who were in office before the Nov. 8 election no later than Nov. 28. Dial toll-free 1-800-282-GATT (1-800-282-4288) to send free of charge a telegram to your lawmakers urging them to vote for the legislation to implement GATT. Lawmakers may also be reached through the Capitol switchboard at (202) 224-3121.

■ Trade

Jeffrey Garten, under secretary of commerce for international trade, discussed with business people meeting in October at the U.S. Chamber the administration's strategy to help U.S. companies tap foreign commercial opportunities. The administration is focusing on 10 areas it has identified as strongly emerging markets: China, India, Indonesia, South Korea, South Africa, Poland, Turkey, Mexico, Brazil, and Argentina. The "Big Emerging Markets" (BEM) strategy, announced earlier this year, will serve as a testing ground for integrating U.S. commercial interests and foreign policy as never before, Garten said.

Board Action

Directors Set Policy On Welfare Reform

The U.S. Chamber of Commerce expects to play a significant role in the public-policy debate over welfare reform, which promises to be one of the hottest topics on Capitol Hill in 1995.

On Nov. 9, the Chamber's board of directors adopted as policy nine principles to guide the organization's efforts toward restructuring the nation's welfare system.

The principles are:

■ Welfare must become a transitional system leading to work. Because people coming off welfare will be expected to work in the public or private sector, business must be involved in the design, development, operation, and evaluation of the new system.

■ The new system should provide job-placement services, as well as education and training to help welfare recipients find jobs.

■ Education and training should include teaching the importance of working with others, reporting to work on time, thinking analytically and independently, and developing a positive attitude toward work.

■ Education and training should be based on and incorporate world-class academic and occupational skills standards.

■ Welfare recipients must be drug-free as a condition of employment and as a condition for receiving federal benefits, including welfare.

■ A limit should be placed on the amount of time an individual may receive welfare benefits.

■ Employees of local welfare centers must be trained for the new system.

■ The new system must not impose any new federal mandates or regulatory burdens on employers. It must not be financed through new taxes or increases in any current taxes on business.

■ In developing a new system, reforms that have been implemented by the states should be examined. (See related story, Page 92.)

Employee Benefits

On an employee-benefits issue that emerged in Congress this fall, the board adopted a policy supporting the preservation of the federal Employment Retirement Income Security Act (ERISA). ERISA was enacted in 1974 to encourage businesses to set up retirement plans for their employees. It did so by providing uniform standards for the design and administration of benefit plans.

Attempts were made in the 103rd Congress—and are expected to be made in the new one—to allow states to obtain waivers from ERISA. While the primary focus of the law is retirement plans, it also governs self-insured health plans and pre-empts states from imposing benefit mandates on the self-insured.

The Chamber believes state waivers would result in a patchwork of inconsistent state laws, prevent employers operating in more than one state from offering a single benefits plan to all their employees, and hinder attempts to improve health-insurance portability.

In a related matter, the board voted to oppose any bill that would interfere with employers' ability to negotiate health-care contracts, rates, and services when and with whom they choose.

Other Action

The board of directors also voted to:

■ Support renewal of fast-track trade negotiating authority for the administration with negotiating objectives limited to commerce. Fast-track requires Congress to approve or reject trade agreements as they were negotiated—without amendments.

■ Approve business recommendations for the Summit of the Americas agenda, a meeting of the 34 democratically elected leaders of the Western Hemisphere set for Dec. 9-10 in Miami.

■ Support legislation to establish a National Institute for the Environment to serve as an independent entity to improve the scientific basis for regulatory decisions.

Elections

Chamber Says It's Well-Positioned To Work With The New Congress

The U.S. Chamber of Commerce is well-positioned to be significantly more effective in achieving business's legislative goals as a result of the Republican sweep in the Nov. 8 congressional elections.

Chamber President Richard L. Lesher, speaking at the business federation's board of directors meeting Nov. 9, listed a number of proposals expected to receive favorable treatment from a GOP-controlled Congress. They include bills to reform product-liability laws, to add an amendment requiring a balanced federal budget to the Constitution, and to limit unfunded mandates—federal requirements imposed without accompanying funds to meet the demands—on the public and private sectors.

"We are set to be a positive force for constructive action on these and other issues next year," Lesher said.

The 104th Congress, which convenes in January, will be led by a Republican Senate majority of 53 to 47 Democrats. At press time, the GOP had won or was leading in 230 House seats to 204 for the Democrats. There will be one Independent member. Before the election, Democrats controlled the House by 256-178.

Lesher said: "These results are a striking rebuff for the advocates of bigger government and higher taxes. This election represents a stunning affirmation of the public's desire for pro-growth policies. We believe America has sent a clear message to Congress and the White House that less government, lower taxes, and no more excuses are the marching orders."

Next Edition

The next edition of *The Business Advocate* will be the February issue. There will be no January issue.

■ Trade

U.S. Firms Sign Contracts At Chamber's China Event

The U.S. Chamber of Commerce was host to more than 100 top-level Chinese business and government leaders at a conference that saw the signing of several multimillion-dollar contracts for U.S. products and services.

The conference at the Chamber's Washington headquarters in November brought American business people together with potential Chinese partners to explore opportunities for U.S. business in developing China's infrastructure.

The U.S. Chamber's Willard A. Workman, center, vice president/international, talks with Chinese Vice Premier Li Lanqing and U.S. Commerce Secretary Ronald H. Brown.

James R. Creamer (seated at left), project director for Caterpillar China Ltd., signs a contract with officials from China's Yangtze River Three Gorges Project. U.S. Chamber President Richard L. Lesher, far left, and members of the Chinese delegation look on.

Caterpillar China Ltd. contracted with China's Yangtze River Three Gorges Project to provide 20 large off-highway trucks for $12 million.

The C.S. Johnson Co. of Champaign, Ill., signed a multimillion-dollar contract to build a plant that will supply concrete for construction of what will be the world's largest dam—on the Yangtze River in China.

U.S. Asian Pacific Enterprise, of California, signed a $100 million contract to provide engineering and design expertise for the development of hotels, shopping centers, villas, and other operations to attract tourists to several Chinese locations.

Marketing Financial Services International, of Millburn, N.J., signed an agreement to participate with two Asian companies in a $225 million joint venture to invest in, construct, and operate a city power plant.

China is the world's third-largest country and one of its fastest-growing economies. But its explosive growth in economic activity since the government began to institute reforms in 1978 has highlighted the inadequacy of China's infrastructure, noted Jeffrey Garten, under secretary of commerce, who addressed the conference.

"Between now and the year 2000, China's need for roads, ports, phones, and power generation is estimated in excess of $250 billion—$50 billion per year," said Garten. In telecommunications, he said, plans call for the installation of 12 million new telephone lines per year to bring the level from two to eight phones per 100 people.

In energy development, the amount of generating capacity the country plans to add over the next five years would be equivalent to adding the entire power-generating capacity of New England every year, said Garten. In the transportation sector, China last year launched a $5.5 billion program to build or renovate 100 airports by the year 2000.

Garten said that while the Clinton administration is laying a foundation for expanded commerce with China, it is concerned about several aspects of the U.S.-China trade relation-

Developing China's infrastructure was the focus of the conference that brought U.S. and Chinese business people together.

ship. They include the mounting U.S. trade deficit with China; the need for stronger enforcement of intellectual-property rights protection; greater market access for U.S. firms that provide services; and the need for nondiscriminatory treatment of U.S. firms in the areas of taxation and regulation.

U.S. Commerce Secretary Ronald H. Brown told the group that commercial engagement works for both the U.S. and China. "It brings jobs for workers who need them, higher standards of living, and it brings our people closer together. It stimulates the exchange not only of goods and services but of ideas and ideals."

Robert Hennkens, left, president of U.S. Asian Pacific Enterprise Co., seals an agreement with an executive of a Chinese company to provide engineering and design expertise for the development of hotels, shopping centers, and other tourist facilities in China.

Chinese Vice Premier Li Lanqing, who led the government's delegation at the conference, noted that since China's adoption of reforms and commitment to economic development, bilateral trade volume between the U.S. and China had risen to $27.6 billion in 1993.

Other Chinese officials participating in the conference included Li Daoyu, ambassador to the U.S., and Gan Ziyu, senior vice chairman of the state planning commission.

The conference featured several panel discussions on such topics as the latest financial reforms, legal considerations for developers and investors, risk management, joint ventures, project finance, and negotiating a deal. Detailed breakout sessions covered power generation, telecommunications, and ground transportation.

The conference was the first of "many such events with China and with other countries involving the Chamber," said the Chamber's Willard A. Workman, vice president/international. "This is part of the Chamber board of directors' commitment to double U.S. exports to $1 trillion by the year 2000."

The three-day conference was sponsored by the Chamber, the U.S.-China Business Council, the China Council for the Promotion of International Trade, and the Department of Commerce. Corporate sponsors were Coopers & Lybrand, JP Morgan, Motorola, Westinghouse, White & Case, Brown & Root, and Ameritech.

Chamber President Richard L. Lesher, right, greets Zheng Hongye, chairman of the China Council for the Promotion of International Trade. Hongye addressed the conference.

■ Seminars

Management Series Slated

The U.S. Chamber of Commerce's spring 1995 seminar series, produced by the organization's Quality Learning Services Division, will bring to small-business people across the country the advice of nationally known experts and authors on management.

The complete spring schedule, with the subject of each seminar and its presenter, is:

March 7—"Creating Value for Your Customers and Employees," James Belasco, professor of management at San Diego State University and co-author of *Flight of the Buffalo* (Warner Books).

March 21—"Bringing the Customer In," Peter Scholtes, author of *The Team Handbook* (Joiner Associates) and a management consultant in Madison, Wis.

April 4—"The Great Game of Business," Jack Stack, author of a book of that title (Doubleday Currency) and chief executive officer of Springfield (Mo.) Remanufacturing Corp.

April 11—"Workplace Communications—the Gaps and Traps," management consultants Judith Briles of Denver, Rick Kirschner of Ashland, Ore., and Rick Brinkman of Portland, Ore.

April 18—"The Seven Habits—Becoming a Transition Person," R. Craig Pace of the Covey Leadership Center, Provo, Utah.

May 2—"The Leader in Me," Stuart Levine, chief executive officer of Dale Carnegie & Associates, New York.

May 23—"Re-engineering Management," James Champy, chairman of the consulting firm CSC Consulting, Cambridge, Mass.

The seminars, all to be held on Tuesdays, will air from 1 to 3 p.m., Eastern time. For information on the series, including prices for downlinking and taping rights, call 1-800-835-4730 or (202) 463-5940. Also available through those numbers are two free QLS catalogs of dozens of management-training videotapes, including coverage of earlier seminars.

The Quality Learning Services Division's fall 1994 series concludes with a seminar on Dec. 6 featuring Joel Barker of the Infinity Limited consulting firm in Lake Elmo, Minn. The topic for that seminar is "Paradigm Hunting: How to Explore the Future More Effectively."

■ Litigation

Chamber Battles Political Rule

Continued from Page 85

The Chamber first challenged the rule in U.S. District Court, but that court declined to act for reasons unrelated to the Chamber's argument based on constitutional rights.

Chamber lawyers have now moved up to the next level of the federal judiciary, appealing the district court decision to the U.S. Court of Appeals for the District of Columbia Circuit, in Washington, D.C.

The lower court, the U.S. District Court for the District of Columbia, had responded to a lawsuit filed by the Chamber Oct. 12. The suit challenged FEC criteria for who should be considered a "member" of an organization for purposes of political communications.

The district court ruled Oct. 28 that the Chamber and the American Medical Association—which joined the suit—could not challenge the rule because the groups had not yet been "injured" by the regulation.

"Because there is no enforcement action pending [against the Chamber or the AMA]," wrote Judge Charles R. Richey, "[the groups] cannot establish an injury in fact and, therefore, lack standing to bring this suit."

"We're obviously disappointed with the district court ruling," said Stephen A. Bokat, vice president and general counsel for the Chamber.

"We don't believe that the Chamber should have to wait for the FEC to bring an enforcement action against us before there can be some resolution to this blatant violation of our First Amendment rights. We also believe that we have already suffered an injury because of the FEC rule," added Bokat. "The Chamber has stopped communicating political endorsements to most of its 220,000 members who do not meet the FEC's new criteria."

Since 1977, the Chamber has participated in the election process by endorsing candidates for congressional office who support business. Those endorsements had been communicated to Chamber members through its *Endorsement Report*. Because of the FEC rule, the Chamber did not produce a report for the 1994 elections.

The Chamber had argued to the district court that the FEC rule violates the business federation's rights of free speech and free association under the First Amendment of the Constitution and its right of due process under the Constitution's Fifth Amendment.

The Federal Election Campaign Act, adopted in 1971 and amended in 1974, does not define "members." The FEC—which was established under the 1971 act—had defined them since 1977 as "all persons who are currently satisfying the requirements for membership in a membership organization, trade association ... ."

In November 1993, the commission narrowed the definition of a member to an individual or organization who either has a "significant" investment or ownership stake in an organization, other than the payment of dues; who can vote for at least one member of the organization's board or highest governing body and pays regular dues; or who can vote directly for all board members. The FEC did not define "significant" investment.

If all or some of an organization's members do not meet at least one of the new criteria, the group cannot use corporate funds to disseminate political information to those members.

Under the Chamber's by-laws, incumbent board members elect new members as vacancies occur. The organization has procedures for determining views of its full membership on policy matters.

Michael A. Nemeroff, right, counsel for the American Medical Association, consults with Kevin Walker, executive director of the AMA's political action committee, at a press conference announcing the filing of a lawsuit by the AMA and the U.S. Chamber against the Federal Election Commission over a rule on political communication.

The U.S. Chamber asked the FEC in March to rule on whether its 220,000 members meet any of the criteria of the new rule. The FEC general counsel maintained in an opinion that the Chamber has only 63 members—its board of directors—for purposes of political communications. The six FEC commissioners, however, split 3-3 on whether to approve or reject the counsel's opinion.

(A similar request from the American Medical Association also resulted in a 3-3 commission vote.)

The deadlocked vote left the Chamber in limbo with regard to political communications to its members in the critical period preceding the Nov. 8 elections, said Bokat.

He noted that violations of the FEC rule carry civil or criminal penalties ranging from the dollar amount of any "illegal" political expenditure to a one-year jail term and three times the expenditure.

In denying the Chamber and the AMA "standing" to bring the lawsuit against the FEC, the district court said the groups' only "injury" would be the "relatively minor economic sanctions of a few thousand dollars" if they communicated political endorsements to members who the FEC later determined did not meet the criteria of its new rule.

The Chamber's appeal of the district court decision is not expected to be considered for more than a year.

GAIN UPDATE
GRASSROOTS ACTION INFORMATION NETWORK
U.S. Chamber of Commerce Federation

GAIN System Proves Vital In '94 Victories

Network Contacts Helped Influence Course Of Federal Legislation.

The U.S. Chamber of Commerce's GAIN system, in its first full year of operation, was vital to victories on a host of issues championed by the business federation in 1994. In many ways, it proved to be the bulwark of the Chamber's fight against measures that would stifle the free-enterprise system.

The Grassroots Action Information Network (GAIN), launched in July 1993, serves as a quick and direct link between the Chamber and business members who are active on legislative and regulatory issues.

The Chamber used the system to alert the more than 32,000 GAIN members to help turn the tide in favor of business on measures that would have barred employers from permanently replacing striking workers, jeopardized the fundamental right of all citizens to communicate and lobby their government, and injected new government controls and new taxes into the private-sector health-care system.

GAIN also was used to garner support for legislation to reform the government's purchasing system, to implement national education standards, and to cut federal spending. GAIN also helped increase support for measures to reduce the burden of government paperwork on business and to stop unfunded mandates on the public and private sectors, though these measures did not reach a floor vote.

The issue of unfunded mandates—federal requirements unaccompanied by federal funds—provides a good example of how GAIN operated in 1994. GAIN members in Maine were contacted when Sen. William S. Cohen, R-Maine, indicated he had some concerns with an amendment to add private-sector protections to a bill requiring a cost-impact analysis of legislation that would impose more than $50 billion in costs on state and local governments.

The GAIN participants contacted Cohen, whom the Chamber targeted as a swing vote on the issue, and persuaded him to vote for the Chamber-backed amendment. The amended bill was approved by the Senate Governmental Affairs Committee and sent to the full chamber for a vote. The measure did not come up for a vote before Congress adjourned.

More recently, the GAIN system has been used to rally support for passage of the new trade pact negotiated under the General Agreement on Tariffs and Trade (GATT). The measure is expected to be voted on by the House on Nov. 29 and by the Senate on Dec. 1.

The GAIN system's principal methods of communicating with its activist members are through issue updates sent by fax and mail, through direct telephone contact, and through the GAIN Update section of *The Business Advocate.*

The system was enhanced earlier this year with the establishment of the Chamber's state satellite network, which allows business people to participate in interactive town-hall-type meetings broadcast from the Chamber's Washington headquarters.

In 1994, GAIN also conducted surveys of its participants to gauge opinion on a number of issues.

For example, on a House measure proposed this year that sought to take a new approach to reining in federal spending—the so-called "A to Z" bill—the Chamber used GAIN to poll 3,659 participants who expressed an interest in the issue. Responses were received from 48 percent of the survey sample.

When the "A to Z" legislation stalled because of opposition from the House leadership, GAIN participants in 37 targeted states were alerted through the system to call their representatives to urge them to sign a petition to discharge the bill to the House floor for a vote. (The measure fell just four short of the 218 signatures needed for a successful discharge petition.)

In one of its most recent surveys, the Chamber solicited responses from 1,200 GAIN participants for their views on efforts to reform the welfare system. Nearly 50 percent of the survey sample responded. (See the story on Page 92.)

"GAIN has helped us better serve our members," says Linda Leinbach Mays, executive director of the Chamber's Office of Membership Grassroots Management. "And our GAIN members have helped the Chamber win a number of important legislative battles over the past year.

"Through GAIN, our members have become one of the most powerful, best-informed grassroots organizations in the country."

How You Can Join GAIN

The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, the U.S. Chamber staff of specialists on legislative and regulatory issues provides activist business people with the timely and thorough information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how you can become a member of this network, call (202) 463-5604.

GAIN Survey Provides Basis For Chamber Welfare-Reform Policy

The U.S. Chamber of Commerce is gearing up to help craft legislation to reform the nation's welfare system. Such changes are expected to be a top issue when the new Congress gets to work early next year.

The U.S. Chamber will be involved in the debate in 1995, it says, because the central goal of the reform efforts is to move people off the welfare rolls into, ideally, private-sector jobs. Business must be involved in the design of the new system, says the Chamber, whose board of directors adopted policy on the topic at its Nov. 9 meeting. The policy calls for certain principles to be embodied in any reform measure. (See the story on board actions on Page 87.)

The board was guided in establishing policy by the results of a survey sent to 1,200 Chamber members who are active in the business federation's Grassroots Action Information Network (GAIN). Nearly 600, or 50 percent, of the surveys were returned.

Business must be involved in the design of a reformed welfare system.

U.S. Chamber of Commerce

The survey results were similar to those of several national polls on the subject conducted over the past few years, with 99 percent of the Chamber respondents agreeing that the current welfare system should be overhauled.

While 76 percent of the respondents to the GAIN survey said that welfare recipients should be eligible for federally funded education and training services, 98 percent said those who receive such services should be required to work after completing their education and training.

An overwhelming percentage—94 percent—also believe that a time limit should be placed on how long a person may receive welfare benefits, and 92 percent said that non-U.S. citizens should not be eligible for benefits.

Respondents were more divided on the questions of abolishing the welfare system and federal subsidies to companies for hiring welfare recipients.

While 41 percent agreed that the goal of welfare reform should be to abolish the system, 51 percent disagreed. And, though 46 percent said the federal government should pay employers a subsidy for hiring welfare recipients to move them off the welfare rolls, 39 percent said such payments should not be made.

When asked how welfare-reform efforts should be financed, 70 percent of the respondents said the financing should come from savings resulting from improvements in the system, and 6 percent said it should come from general revenues. Only 0.01 percent said reform efforts should be financed by tax increases.

Legislation based on a Clinton administration proposal and a Republican alternative to it was introduced in Congress this year.

The administration's proposal, named the Work and Responsibility Act, would have required welfare recipients to obtain education and training, to use a job-placement service, and to accept a job if offered one. Those still unemployed after two years would be placed in subsidized private- or public-sector jobs or with community organizations. The estimated cost of the measure was about $9.5 billion over five years.

The Republican plan called for time limits on welfare eligibility and for cuts in benefits.

The presidential Commission on Entitlement Reform is studying various options for dealing with the welfare system, which many people believe fosters dependence on government payments rather than self-sufficiency. The commission is expected to report its findings in 1995.

There are an estimated 5 million families receiving monthly welfare payments under the federal Aid to Families with Dependent Children (AFDC program). In addition, millions more receive help in the form of food stamps, Medicaid, and housing payments.

Changes In Clean Water Act Will Be On '95 Congressional Agenda

When the 104th Congress convenes in 1995, one of its environmental focuses will be changes in the Clean Water Act, which the 103rd Congress worked to rewrite but failed to complete.

Reauthorization of the law, which was last updated in 1987 and by most accounts is working well, has been a top environmental priority for Congress and the administration. Ensuring that the act's updating meets business's concerns has been a chief focus of the U.S. Chamber of Commerce this year.

The Chamber, which led a business coalition on the issue, supports the current clean-water program and endorses the goal of improved water quality throughout the U.S. The question is: How does the nation meet the challenge of improving water quality and address remaining water problems in a cost-effective and equitable way?

Two major clean-water reauthorization bills were debated in Congress this year. The Senate Environment and Public Works Committee approved a bill (S. 2093), introduced by Sens. Max Baucus, D-Mont., the panel's chairman, and John H. Chafee, R-R.I. According to the Chamber's Charles W. Ingram, associate manager of environment policy, that bill would have imposed many unnecessary and burdensome new requirements on industry—without yielding any measureable improvements in water quality.

For example, the bill would have required states to adopt federal anti-degradation policies preventing facilities from altering their discharge levels. This is a "no-growth" policy that would prohibit plant expansion and changes in production capacity while delaying the permit process, Ingram says.

The Chamber's concerns applied also to a similar House bill—H.R. 3948—introduced by Public Works and Transportation Committee Chairman Norman Y. Mineta, D-Calif.

Other provisions that concerned business were expanded

enforcement, new pretreatment controls, mandatory pollution-prevention planning, excessive fees, and stricter water-quality standards.

Both proposals generated a lot of controversy and were criticized by all stakeholders in the matter—business, states, farm groups, environmental organizations, and others. As the debate ensued, a group of about 15 members of the House Public Works and Transportation Committee offered a bipartisan alternative proposal to H.R. 3948.

The Chamber supported this alternative approach because it addressed remaining water-quality problems in a flexible, cost-effective way and would have given states and local governments greater controls in making policy decisions and in managing their water resources.

The bipartisan proposal specifically included requirements that the Environmental Protection Agency incorporate good scientific analysis and risk-assessment practices into regulatory decision making and ensure that state and local governments are not left with "unfunded mandates"—federal requirements unaccompanied by funding.

With committee members almost equally divided between H.R. 3948 and the bipartisan alternative, clean-water legislation remained bottled up in the committee without further action being taken.

The Chamber-led Clean Water Industry Coalition actively worked to ensure that business concerns and issues were addressed during debate. It will continue to work with the House and Senate to resolve these issues during the 104th Congress to achieve the common goal of protecting water quality and strengthening the U.S. economy.

New Congress Will Face Challenge Of Reforming Superfund Program

The Superfund program for cleaning hazardous-waste sites is expected to be one of the major environmental issues considered by the new Congress.

President Clinton called for reform of the Superfund program in his State of the Union address in 1993, with the goal of spending more on cleanup and less on legal fees and transaction costs.

The legislation introduced in 1994 in Congress to overhaul the program (H.R. 3800 in the House and S. 1834 in the Senate) was based on the administration's proposal.

But a consensus on how to change the program could not be reached in Congress before it adjourned for the November elections.

The Superfund law—the Comprehensive Environmental Response, Compensation, and Liability Act—was enacted in 1980 and amended in 1986. The law called for a federal fund, financed by a tax on petroleum and 42 listed chemicals, to clean up abandoned hazardous-waste sites. It also allowed the federal government to go after the "potentially responsible parties" (PRPs) that may have disposed of hazardous materials at the waste sites.

Today there is widespread agreement that the Superfund program is not working. The fact that the major source of funding involves collecting fines from PRPs often leads to protracted lawsuits—in search of payment for cleanup—against a large number of businesses and other organizations.

The accompanying and lengthy site-assessment and cleanup determinations are heavy burdens for businesses because the companies often incur huge legal bills.

Moreover, the protracted nature of the process has limited

Since the Superfund law was passed, relatively few of the nearly 1,200 sites on the National Priority List have been pronounced clean.

the number of site cleanups the EPA has been able to see completed.

In the years since the law was passed, relatively few of the nearly 1,200 sites on the National Priority List (NPL) have been pronounced clean—though the cost of the program has reached nearly $15 billion. This figure does not include legal fees and other transaction costs incurred by PRPs.

Because of the law's cumbersome and expensive procedures dictating allocation of responsibility and cleanup of hazardous-waste sites, it is often years before work even begins. The process invites lengthy legal battles over cost allocations.

The Environmental Protection Agency expects to add 100 sites a year through the year 2000 to the NPL. Currently the average site is taking six to eight years from the time it is first investigated until cleanup is completed, at an average cost of $26 million per site.

If this trend continues, the nation will spend between $10 billion and $20 billion per year in hazardous-waste cleanup (in nonfederal facilities alone) by 2000.

This would represent 10 to 20 percent of all pollution-control expenditures in the United States, without a significant increase in the number of sites cleaned up or in the protection of public health.

The U.S. Chamber of Commerce will continue to monitor Superfund legislative developments.

Proposals To Expand Plant-Closings Law Are Unlikely To Advance Next Year

Bills were introduced this year to expand the 1988 plant-closing law, but such legislation is unlikely to be considered in 1995 with Republicans in control of the House and Senate.

The 1994 measures saw little action beyond the subcommittee level in both houses.

The identical House and Senate bills would have required companies with 50 or more workers—down from the 100 or more required in the existing law—to give notice of a plant closing or a layoff.

Firms closing a plant or making a layoff that resulted in a loss of employment for 25 to 49 workers would have been required to give 30 days' notice to those employees; for 50 to 99 employees, 60 days' notice, and for 100 or more workers, 90 days' notice.

The current law requires companies with 100 or more workers to give 60 days' notice of a closing or a layoff that results in 50 or more lost jobs if that number is at least 33 percent of the work

force. Notice must be given regardless of the percentage of the work force affected if 500 or more workers lose their jobs.

Also, a firm with several sites that meets the notice criteria but has a layoff of no more than 49 employees at a single location is exempt from the notification requirement.

Under the proposed legislation, however, the single-site exemption would have been rescinded and the exemption that allows companies to forgo giving notice for a plant closing or layoff if less than 33 percent of the work force would be affected would have been deleted.

The plant-closing bills, which the Chamber opposed, were introduced by Sen. Howard M. Metzenbaum, D-Ohio, and Rep. William D. Ford, D-Mich., both of whom are retiring from Congress at the end of the year.

Chamber Looks Ahead To Renewing Efforts To Help S Corporations

Legislation to improve the competitiveness of small firms operating as S corporations is expected to be introduced in Congress in 1995. Similar legislation, backed by the U.S. Chamber of Commerce, was introduced in the Senate and House during the 103rd Congress but did not come up for a vote.

In an S corporation—named for the Internal Revenue Code subchapter relating to such firms—profits and losses flow to individual shareholders and income is taxed only once, at the personal tax level. With a regular corporation, profits are taxed twice—as income to the company and as dividends to the shareholders.

There are 1.6 million small businesses in the United States organized as S corporations.

Legislation likely to be introduced in 1995 is expected to resemble the bills introduced in the 103rd Congress. Those bills would have:

■ Provided broader eligibility rules for S corporations and shareholders, enhancing the availability and desirability of S-corporation status.

■ Simplified complex rules for S corporations and shareholders and expanded capital-formation techniques available to S corporations. The purpose was to help create a more level playing field with other kinds of corporations and partnerships. This would be accomplished by increasing the allowable number of shareholders for S corporations to 50 from 35 and by allowing tax-exempt organizations and financial institutions to be eligible shareholders.

■ Helped preserve family-owned businesses by permitting S-corporation owners to place their stock in a variety of trust arrangements.

The U.S. Chamber expects to work for passage of S-corporation legislation in 1995.

Increases In Federal Minimum Wage Appear Unlikely Any Time Soon

It has been more than three years since the federal minimum wage was last raised. But don't expect it to be increased any time soon.

Although a number of proposals to boost the wage floor from its current $4.25 an hour are likely to be introduced in the 104th Congress, none is expected to see significant action.

Many bills to raise the wage rate were introduced in the 103rd Congress—most in early 1993—but received no serious consideration during the two-year session.

Most of those proposals—and the ones expected to be introduced in 1995—called for increasing the minimum wage from $4.25 an hour to as high as $6.75 over three years. They would have then used the Consumer Price Index or the average factory wage as the basis for annual, automatic increases in the future.

The federal minimum wage was last raised in two steps in 1990 and 1991, when it was hiked from $3.35 to $4.25. The Chamber has opposed—and continues to oppose—increases in the minimum wage, which numerous studies in recent years have indicated would result in job losses.

Product-Liability Reform Prospects Good

Legislation to reform the nation's product-liability laws is expected to have its best chance ever of congressional passage next year in the 104th Congress with Republicans in control of the House and Senate.

The U.S. Chamber of Commerce has been working for more than 12 years for a federal product-liability reform law that would pre-empt the patchwork of 50 state laws.

Bills considered this year had bipartisan support, and, based on business coalition assessments, had the support of a majority of Republicans in both houses.

Nonetheless, Senate proponents were twice unable to break a filibuster by opponents of reform so that a vote could be taken on the bill. Senate backers fell just three votes shy of the 60 needed to end the debate and bring the bill up for a vote.

The House put off action when the Senate failed to cut off debate on its bill.

But with Republicans holding 53 Senate seats in 1995—up from 44 in 1994—and expected support from many of the 19 Democrats who voted to cut off this year's product-liability filibuster, prospects for passage of the measure look good.

Only a simple majority is needed to pass the legislation.

In the House, business-backed reform legislation had the support of more than 150 lawmakers who co-sponsored a bill introduced by Rep. J. Roy Rowland, D-Ga.

Among other provisions, this year's Senate and House bills—and the measures expected to be considered in 1995—would have:

■ Set a uniform statute of limitations for bringing a product-liability suit against a company.

■ Allowed punitive damages only if there was "clear and convincing evidence" that a company showed "conscious, flagrant indifference" to public safety.

■ Required firms to pay noneconomic damages—recovery for pain and suffering—only in proportion to their share of the blame rather than making them jointly liable for the entire amount awarded.

■ Provided incentives for quicker settlements of lawsuits, speedier compensation to injured parties, and reductions in legal costs.

GU

■ Business Ballot

Companies' Confidence In Economy Rebounds

Business's confidence in the economy continued its roller coaster ride in October, jumping more than seven points from August after having fallen 6.5 points from June to August, according to the results of the latest Business Ballot poll.

The October Business Confidence Index—a composite of the results of three bimonthly economic-outlook questions asked of Chamber members—was 57.2, up from 49.9 in August. In June, the index was 56.4. (See the chart.)

The October level was the highest since the index reached 59.3 in April 1993.

An index of 50 means the number of firms expecting increases in their sales, employment, and the economy in general over the next six months is equal to the number expecting decreases.

"These new data reflect the considerable momentum the economy appears to be enjoying in spite of the sharp upward move in interest rates since early this year," said Martin A. Regalia, U.S. Chamber vice president and chief economist. "Also contributing to the more robust outlook is the lack of new wage and price inflation during this expansion."

Despite the optimism measured in the latest Business Ballot, Regalia warned about further interest-rate hikes. "We still haven't felt the full effects of the Federal Reserve's interest-rate increases to date," he said. "The real issue is not whether continued rate hikes will cause the economy to stall, but rather when."

Respondents to the October poll, however, were confident. Nearly 30 percent said they expect the economy to improve over the next six months, compared with 21 percent in August.

Thirty percent expect the economy to decline, down from 39 percent in August. Forty percent—the same as in August—expect no change.

The outlook for sales also improved, with 48.1 percent of the respondents expecting increases over the next six months—up from 37.7 percent in August. This was the highest percentage expecting greater sales since February 1993. Respondents expecting a sales decline came to 16.6 percent, compared with 22 percent in August.

Respondents' hiring outlook for the next six months also brightened. More than 24 percent expect to add workers, compared with 19.5 percent in August. And 12.6 percent expect to cut employees, down from 17.5 percent in August.

Be sure to respond to this month's Business Ballot in the polybag with your Nation's Business *and* The Business Advocate.

■ Litigation

Chamber Sues EPA Over Waste Regulations

The U.S. Chamber of Commerce is challenging the U.S. Environmental Protection Agency over hazardous-waste rules and a method for calculating fines for violations of environmental laws.

The Chamber's nonprofit legal affiliate, the National Chamber Litigation Center, filed suit against the EPA in U.S. District Court for the District of Columbia on Oct. 3 over the agency's failure to revise the regulations.

Congress had ordered the EPA to rewrite the so-called "mixture and derived-from" rules by Oct. 1. As currently written, they treat as "hazardous" any material that is mixed with or derived from a hazardous waste regardless of the material's actual effect on human health or the environment. The agency, which has acknowledged that the rules are overly inclusive, has not committed to a date for proposing new rules.

The Chamber says further delays in revising the rules will only add to the massive costs imposed on companies that must treat as "hazardous" materials that pose little or no danger to human health or the environment.

After the mixture and derived-from rules were issued in 1980, they were challenged by a number of industries because the EPA did not give the legally required notice of its intent to issue the rules, and it did not allow the public to comment on the regulations when they were proposed.

The regulations also were challenged based on the argument that the EPA exceeded its statutory authority to control hazardous waste under the Resource Conservation and Recovery Act of 1976. That statute requires the agency to list hazardous wastes and identify their characteristics.

A U.S. appeals court threw out the rules in late 1991, but the EPA reinstated them in March 1992 and added a provision to have the rules automatically expire on April 28, 1993. The EPA said it planned to revise the rules to exclude low-hazard waste by that date.

The EPA proposed new rules in late May 1992 but withdrew them four months later, saying revised rules would be issued in 12 to 24 months (by October 1994). At that time, Congress added language to the agency's fiscal 1993 appropriations bill requiring it to issue the new rules by Oct. 1, 1994.

In a separate action, the Chamber is challenging the EPA's use of a computer model to calculate civil penalties for companies that fail to comply with environmental laws.

The NCLC filed a petition with the agency in late October asking the EPA to allow the public to comment on the computer model, which has been in use since 1985. The model has raised concerns even among the EPA's own consultants.

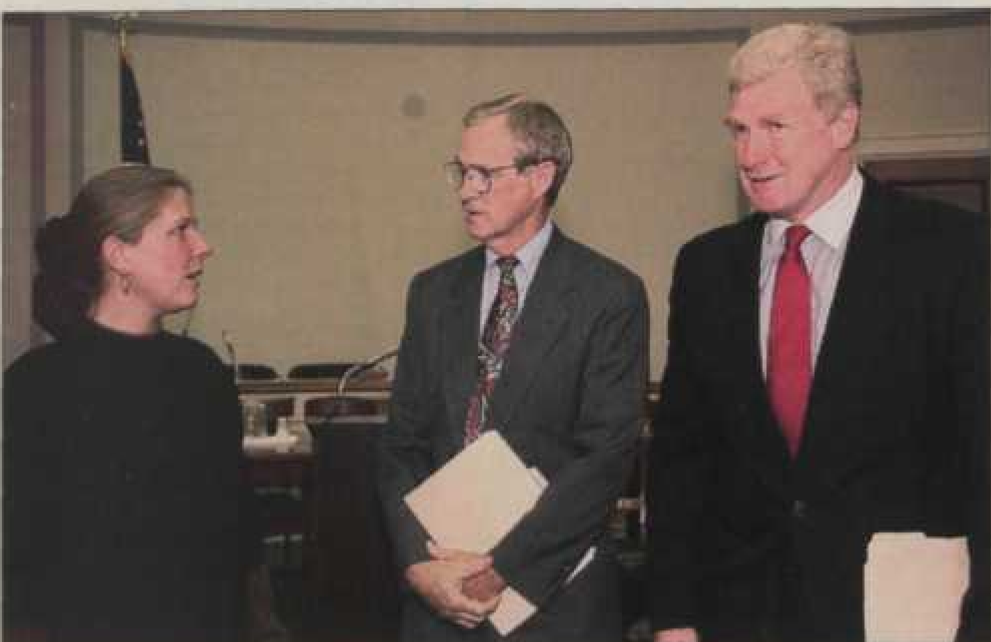
Legislation

Bills Likely To Be Revived In '95

Many of the pro- and anti-business bills that died in early October when Congress adjourned for the elections are expected to be reintroduced in the 104th Congress, which convenes in January.

The U.S. Chamber of Commerce will be backing those that would benefit business and fighting those that would hurt it.

These are some of the key measures that failed to win approval in 1994 but could be on the 1995 congressional agenda (others, including bills related to health-care reform and the environment, are covered on Page 44 in your December *Nation's Business*):



Reps. William F. Goodling, R-Pa., center, and James P. Moran Jr., D-Va., introduced legislation in the 103rd Congress to stop lawmakers from imposing unfunded mandates on the public and private sectors. Nancy Fulco, left, human-resources attorney for the U.S. Chamber, says passing an unfunded-mandates measure will be a top priority of the business federation next year.

Transportation

The National Highway Designation Act of 1994 would have designated key routes, connector roads, defense highways, and roads that link with other modes of transportation as vital to the country's economy and national defense.

The House and Senate passed separate versions of the legislation, which would have authorized $6.5 billion a year to the states for improvements to the designated roadways and for additional highway construction.

The U.S. Chamber strongly supports the concept of establishing a National Highway System (NHS).

House and Senate conferees, however, were unable to reconcile differences in the bills before the end of the session. The Senate did not pass its version of the highway bill until Sept. 23—just two weeks before Congress adjourned.

Congress has until Sept. 30, 1995, to approve legislation establishing the NHS. New bills are expected to be introduced early next year.

Unfunded Mandates

Proponents of legislation to curtail unfunded mandates—requirements imposed by lawmakers on the public and private sectors—worked up to the last day of the congressional session to win passage, but time and parliamentary maneuvering doomed House and Senate bills.

The Senate measure, which would have required the Congressional Budget Office (CBO) to conduct a cost-impact analysis of any legislation expected to add $50 million or more to state or local costs, was debated on the Senate floor. The bill also included a provision that would have required a CBO analysis for unfunded mandates costing the private sector $200 million or more.

The legislation failed to win passage when attempts were made to add a host of unrelated—and contentious—amendments to it.

The House measure, which was similar to the Senate's but contained a weaker private-sector provision, had cleared the Government Operations Committee and was ready for floor action when the chamber adjourned.

Reps. James P. Moran Jr., D-Va., and William F. Goodling, R-Pa., were set to offer an amendment to the bill on the House floor to include a private-sector provision identical to the Senate language.

Exporting

Efforts to revamp the Export Administration Act, which controls the shipment of products and processes that can be used for both military and civilian purposes, fell short.

Lawmakers could not agree on how to balance efforts to expand export markets on one hand and stop countries from obtaining the technology to build weapons of mass destruction on the other.

The Chamber had pushed for a House bill that would have eased restrictions on all exports and shifted the focus of trade curbs from former communist countries to nations that harbor terrorists.

The legislation also would have streamlined export-licensing procedures and tightened restrictions on products and processes used for weapons of mass destruction.

The Senate bill would have done little to ease current export controls.

Because it failed to act on a new export law, Congress simply extended the existing Export Administration Act to Sept. 30, 1995, and will act on the issue again next year.

Budget Reforms

The House passed, but the Senate never considered, several measures backed by the Chamber to reform the federal budget process. The spending-control measures would have:

■ Allowed the president to rescind individual spending items in appropriations bills and tax breaks in tax legislation. Congress would have been required to vote—by simple majority—on whether to accept or reject the proposed rescissions. Money saved through any rescission could have been used to reduce the deficit.

■ Required that the president and the Congress compare their budgets with the actual amounts spent during the preceding fiscal year rather than with inflation-adjusted amounts.

Currently, each year's budgeting starts with the previous year's actual spending adjusted for inflation. Reductions from this "baseline" budget are often portrayed as spending cuts when, in fact, most of those "cuts" still leave the inflation-adjusted budget higher than the previous year's actual spending.

■ Prohibited nonemergency items from being added to emergency spending bills, such as those for flood and earthquake relief.

Another House budget bill, the so-called "A to Z" proposal, was strongly backed by the Chamber but died. The measure was introduced by Reps. Robert E. Andrews, D-N.J., and Bill H. Zeliff Jr., R-N.H. There was no corresponding Senate bill.

The legislation would have allowed any House member to propose a specific spending cut and have it voted on. If approved, a cut would have become part of a total package that subsequently would have been voted on without amendments.

Proponents of the proposal fell just 14 votes short of the 218 needed on a petition to discharge the bill to the House floor for a vote. Budget reform is expected to be a major issue in 1995.

Food Safety

Members of the agriculture committees in the House and Senate spent most of their time fighting over competing bills to reform the nation's food-safety laws, and the legislation died.

The Chamber supported measures that would have:

■ Implemented recommendations issued by the National Academy of Sciences on pesticides in the diets of infants and children.

■ Expedited the removal from the food supply of chemicals that pose an unacceptable health risk.

Rep. Lewis F. Payne Jr., D-Va., and the Chamber's Lisa Sprague, manager of employee-benefits policy, expect one of the top health-care-related issues next year to be whether to grant states waivers to the federal Employment Retirement Income Security Act (ERISA) to allow them to impose health-care reforms on employers with self-insured plans.

■ Created a uniform federal standard for pesticide levels on foods and barred the states from setting tolerance levels.

The legislation provided for revision of the standard as science and technology about pesticides evolved.

Measures backed by the Clinton administration did not offer the flexibility to keep pace with advances in science and technology, the Chamber said.

Civil Penalties

A provision buried in the Clinton administration's reinventing-government bill that would have increased almost all federal civil penalties came close to passing Congress.

The penalty-hike provision was contained in three paragraphs in the 240-section National Performance Review bill that was adopted by the House and approved by a Senate committee. Various sections of the reinventing-government bill were adopted by Congress, but the full measure, including the penalty provision, never saw further Senate action.

The penalty section would have indexed all civil monetary penalties, except those related to the Internal Revenue Code, to the rate of inflation. For the past several years, annual inflation has been about 3 percent.

It also would have required federal agencies to adjust their penalties at least once every four years and to increase their fines immediately to reflect past inflation back to the year the penalties were set or last adjusted.

The Chamber adamantly opposed the penalty provision.

Employee Benefits

Legislation passed by the House and introduced in the Senate would have amended the federal Employment Retirement Income Security Act (ERISA) by deleting the provision that pre-empts states from dictating to employers the wage and benefits packages they can offer workers.

Under the legislation, which the Chamber opposed, states could have required minimum benefits packages, mandated payment of prevailing wages—usually the union wage in an area—and set standards for job-training programs for employers working on private or public construction projects.

ERISA was adopted in 1974 to encourage the growth of employee-benefit plans among businesses by creating uniform federal regulations.

Another ERISA bill, introduced in the Senate late in the congressional session, would have made it easier for states to receive waivers from the federal statute so they could advance state-level health-care reforms.

The measure would have allowed states to mandate certain health-care requirements, such as insurance-premium payments and minimum benefits levels, on employers with self-insured plans.

■ **Punitive Damages**

Chamber Wins High Court Case

The U.S. Chamber of Commerce's legal center recently scored an important victory for business in the U.S. Supreme Court on the issue of punitive damages.

The Chamber's public-policy law firm, the National Chamber Litigation Center, argued in a brief filed in the case that the due process clause of the Fifth Amendment of the Constitution requires that awards for punitive damages be reviewed for their reasonableness. The Supreme Court agreed.

The high court ruled in *Honda Motor Co. vs. Oberg* that judicial review of punitive damages awarded by juries is a constitutional safeguard against excessive fines.

The case reached the Supreme Court after several courts in Oregon, including the state's supreme court, refused to review an award for punitive damages to a man injured when a Honda all-terrain vehicle he was driving up a steep embankment overturned. The man, Karl Oberg, sought and won from the trial court jury $5 million in punitive damages from Honda, in addition to more than $735,000 in compensatory damages.

Honda challenged the punitive-damages procedures and the excessiveness of the award to the trial court, the Oregon Court of Appeals, and the state supreme court. The trial court denied without comment Honda's motion to set aside the award or to grant a new trial.

The appeals court said that instructions given by the trial judge to the jury about determining punitive damages "adequately guided the jury."

It also ruled that a provision in the state constitution prohibited the setting aside of the award as excessive and that the same provision limited appellate review of the case to asking only whether there was "any evidence" to support a punitive-damages award.

The Oregon Supreme Court said that the factors cited by the appeals court were "sufficient to satisfy [Honda's] due process rights."

(Oregon is the only state that bars judicial review of awards for damages.) In the U.S. Supreme Court's ruling, Justice John Paul Stevens, writing for the 7-2 majority, said: "Judicial review of the size of punitive-damage awards has been a safeguard against excessive verdicts for as long as punitive damages have been awarded."

The Supreme Court also expressed concern about what NCLC argued were "improper factors" in the Honda case presented to the trial jury for determining the punitive-damages award. The jury was instructed to consider the "financial condition" of

Honda. Evidence was presented during the trial that Honda and all of its ancillary companies were worth $5 billion.

The court said that such evidence "creates the potential that juries will use their verdicts to express bias against big businesses."

■ Lower-Court Verdict

NCLC also won a punitive-damages case before the Georgia Court of Appeals that involved General Motors pickup trucks.

The parents of a man killed in a GM truck had won $4.2 million on a wrongful-death claim and $105.2 million in punitive damages. The appeals court, in *Moseley vs. General Motors*, overturned the award for punitive damages because the plaintiff's attorney had referred at the trial-court level to other cases involving pickup-truck accidents without demonstrating any similarities between them and his case.

NCLC argued that the errors made by the trial court resulted in the excessive punitive-damages award.

Although the appeals court did not overturn the verdict based on NCLC's arguments, its decision was important because it precludes the GM case from being cited as a basis for awarding even higher punitive damages, said the Chamber's litigation center. Over the past five years, NCLC has been involved in 12 punitive-damages cases at various court levels.

■ Clean-Water Victory

In a case related to the Clean Water Act, the U.S. Court of Appeals for the 8th Circuit, in St. Louis, agreed with NCLC on limits on citizen suits.

NCLC successfully argued that state administrative-enforcement actions against a company for violations of the water law bar private citizens' suits against the business for the same violations.

In *Arkansas Wildlife Federation vs. ICI Americas*, ICI, a chemical manufacturer, was sued on charges of violating its water-discharge permit by the Arkansas Wildlife Federation under the citizen-suit provision of the Clean Water Act. The law limits such suits, however, if "a state has commenced and is diligently prosecuting an action under state law" or if "the violator has paid a penalty assessed under ... comparable state law."

The state had fined ICI Americas $2,000 for the discharge-permit violation, but the environmental group was not satisfied with the penalty. It argued that the Arkansas pollution statute under which the state fined the firm was not comparable with the Clean Water Act and thus did not preclude a citizen suit.

The court agreed with NCLC's argument that Congress did not intend for the limit on citizen suits in the Clean Water Act to apply only to those situations where the state statute was a mirror image of federal administrative enforcement.

U.S. Chamber Member Services

The U.S. Chamber of Commerce offers a number of services and publications to its members. Each month, *The Business Advocate* will feature a partial listing of these benefits.

Management Seminar Series


Joel Barker

"Paradigm Hunting: How to Explore the Future More Effectively" will be the topic of a satellite seminar sponsored by the Quality Learning Services (QLS) Division on Dec. 6 from 1 to 3 p.m. Eastern time.

This final seminar in QLS's fall series will feature Joel Barker of the Infinity Limited consulting firm, in Lake Elmo, Minn.

For more information, including prices for downlinks and taping rights, call 1-800-835-4730 or (202) 463-5940. For details on the next seminar series, see Page 89.

Report On Issues

The Chamber has a number of publications to help small businesses.

The *U.S. Chamber Watch on Small Business Legislation and Regulation* reports 11 times a year on the issues that impact the way small firms do business.

The newsletter provides insight into legislation small firms consider to be priorities, and it offers "how-to" articles for small-business people on a variety of topics. It features periodic guest articles from entrepreneurs and heads of local chambers of commerce.

Call the Small Business Center, (202) 463-5503, to receive a sample copy. Annual subscription prices are $49.50 for Chamber members and $65 for nonmembers.

Guidance For Small Business

Concerns of Small Business is an informative source for small firms needing guidance on such issues as taxes and financing, export markets, legal costs and fees, and risk management.

The book, produced by the Domestic Policy Division, is $6 for Chamber members and $10 for nonmembers. To order, write to the U.S. Chamber of Commerce, Small Business Center, 1615 H Street, N.W., Washington, D.C. 20062-2000, or call the center at (202) 463-5503.

ADA Compliance

What Business Must Know About the ADA: Compliance Guide is an 88-page reference that addresses the employment and public-access provisions of the sweeping 1990 Americans with Disabilities Act.

(The employment section became effective for firms with 15 or more employees—down from 25 or more—on July 26, 1994.)

The guide offers recommendations on hiring, promoting, offering benefits to, and terminating persons with disabilities. It also provides insight into what alterations may be necessary to make your facilities accessible to the disabled.

The price is $14 for Chamber members, $21 for nonmembers. To order (Publication No. 0320), call (202) 463-5500.

Legal Advice

The U.S. Chamber's nonprofit legal affiliate, the National Chamber Litigation Center, has available a book that could help you save money and avoid migraines when it comes to selecting, paying, and getting what you want from a lawyer. Written by Robin S. Conrad, vice president of NCLC, and Washington lawyer Erwin G. Krasnow, the 143-page book, *100 Ways To Cut Legal Fees & Manage Your Lawyer*, provides practical information on dealing with attorneys. The book can be ordered—for $10.95 plus $1 for shipping and handling—by writing the National Chamber Litigation Center, 1615 H Street, N.W., Washington, D.C. 20062-2000.

Workers' Comp

The Chamber's *Analysis of Workers' Compensation Laws*, 1994 edition, details changes in state workers' comp laws that occurred in 1993. It includes charts on each state's income benefits for total disability, various injuries, and deaths.

Also available is a supplement to the analysis, which reports on changes in state workers' comp laws through July 1, 1994.

The publications can be ordered by writing the U.S. Chamber of Commerce, Publications Fulfillment, 1615 H Street, N.W., Washington, D.C. 20062-2000, or by calling 1-800-638-6582 (1-800-352-1450 in Maryland) weekdays between 9 a.m. and 4:30 p.m.

The *1994 Analysis of Workers' Compensation Laws* (Publication No. 0366) is $15 for members, $25 for nonmembers. The supplement (No. 0367) is $8 for members, $11 for nonmembers.

Free Brochures

A number of brochures on complying with various federal regulations and laws and on helping to operate a business are available free to U.S. Chamber of Commerce members. They include:

How to Comply with the Immigration Reform Act (#2001)

How to Sell to the Federal Government (#2002)

How to Manage Risk and Control Your Insurance Costs (#2003)

How to Expand Your Market through Exporting (#2004)

How to Obtain Good Legal Advice and Control Your Legal Costs (#2006)

How to Obtain Small Business Financing (#2007)

How to Prevent Drug Abuse in the Workplace (#2008)

How to Manage AIDS in the Workplace (#2009)

How to Comply with the OSHA Hazard Communication Standard (#2011)

How to Test Your Benefit Plans for Discrimination (#2013)

How to Locate Information for Your Family Business (#2014)

How to Succeed in Franchising (#2015)

How to Comply with the Americans With Disabilities Act (#2016)

How to Communicate with Your Congressional Representatives (#2017)

How to Comply with the Civil Rights Act of 1991 (#2018)

How to Comply with the Family and Medical Leave Act (#2019)

How to Comply with OSHA (#2020)

To order any of the brochures, call 1-800-638-6582 (in Maryland, call 1-800-352-1450), or write U.S. Chamber of Commerce, Publications Fulfillment (RKVL), 1615 H Street, N.W., Washington, D.C. 20062-2000. Orders may be faxed to (301) 468-5150. Include the publication number.

For bulk orders of 50 or more, there is a charge of 10 cents per brochure.

How To Succeed With NAFTA

An information package to help firms succeed in the environment created by the North American Free Trade Agreement is available through the International Division.

The package—"NAFTA Impact"—includes the Chamber's NAFTA guide, the American Chamber in Mexico's guide to doing business in Mexico, a business overview, a guide to customs procedures, and tailored analyses of your exports and market information. The cost to Chamber members is $59.95, to nonmembers $69.95.

Export Assistance

The International Division offers publications to help U.S. firms export their goods and services. They include Latin America Country Profiles, which provide overviews of the economic, political, and trade and investment circumstances in 19 nations in Central and South America. The profiles include recent economic trends and lists of key trade assistance contacts for each nation.

Prepared by the Association of American Chambers of Commerce in Latin America, the profiles package is $45 for Chamber members and $55 for nonmembers. To order, call (202) 463-5460.